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January 6

ON AMERICAN IN

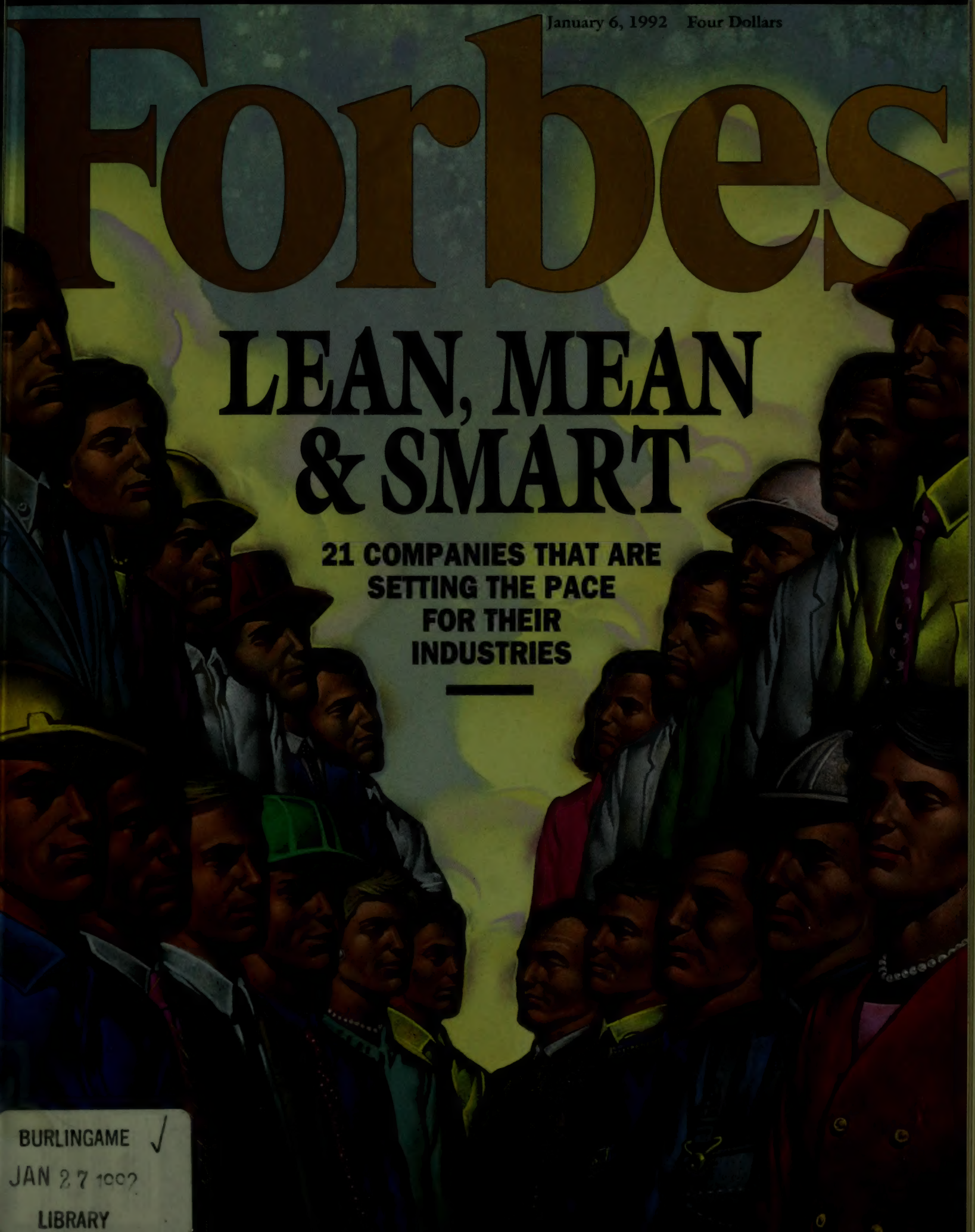
PERFORMANCE YARDSTICKS ON 1,209 COMPANIES

January 6, 1992 Four Dollars

Forbes

LEAN, MEAN & SMART

21 COMPANIES THAT ARE SETTING THE PACE FOR THEIR INDUSTRIES



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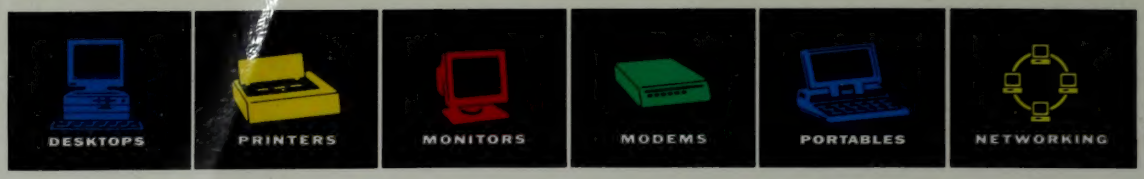

NORTHEASTERN UNIVERSITY'S COLLEGE OF BUSINESS GAVE TOP MARKS TO HYUNDAI PCs

THERE'S A LESSON TO BE LEARNED HERE.

A school devoted to the business of understanding business is hardly one to make ill-informed decisions. Indeed, they can be trusted to analyze price-performance equations from every possible angle.

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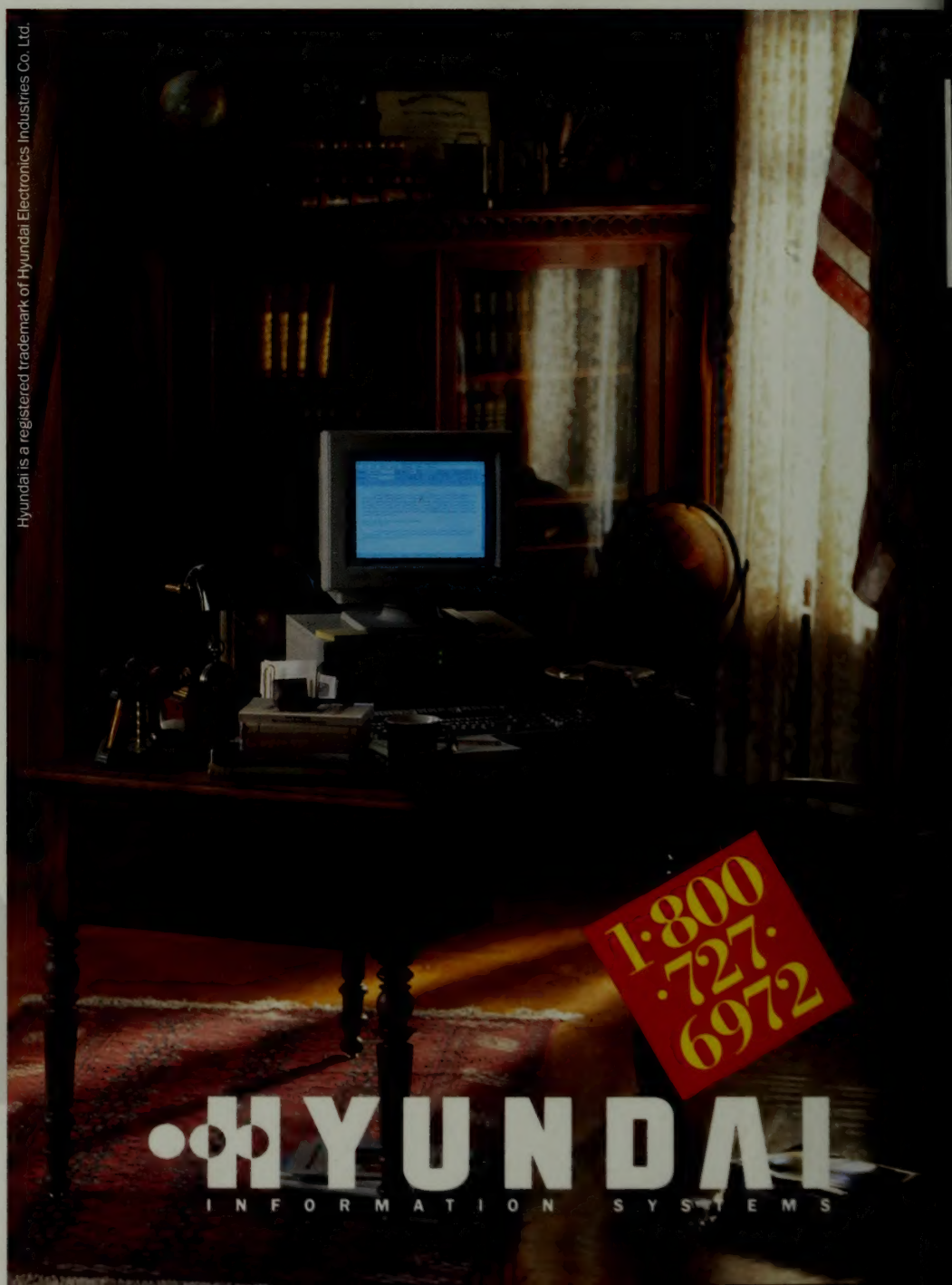
If wisdom is the ability to learn from the experience of others, then benefit from the insights of Northeastern University's College of Business Administration, and choose Hyundai.

Hyundai Electronics America, 166 Baypointe Parkway, San Jose, CA 95134.



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DIVIDEND PAYOUT INCREASED BY ALMOST 10%.

The Guardian's 1992 Individual Life Dividend Scale continues to be one of the highest in the industry.

The Guardian's 1992 individual life dividend payout of $195 million is an increase of almost 10% over 1991, and reflects our continuing commitment to fair and equitable treatment of all our policyholders.*

We are proud to report that this is the highest total dividend payout in The Guardian's history.

It should be noted that in 1991, the life insurance industry experienced additional federal income taxes and lower returns on investments. As with most companies, The Guardian's 1992 dividend scale reflects these factors. Although our non-loaned dividend interest rate decreased from 10.50% to 10.25%, it remains one of the highest in the industry. Even with this moderate decrease in our 1992 dividend factors due to slightly lower interest rates and higher federal taxes, most Guardian policyholders will receive an equal or greater dividend payment than last year.

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Our 1992 dividend payment is the 123rd consecutive in The Guardian's history. That's continuity. Stability. And testimony to how well we keep our financial house in order. That translates to real benefits for Guardian policyholders. Year after year after year after year.

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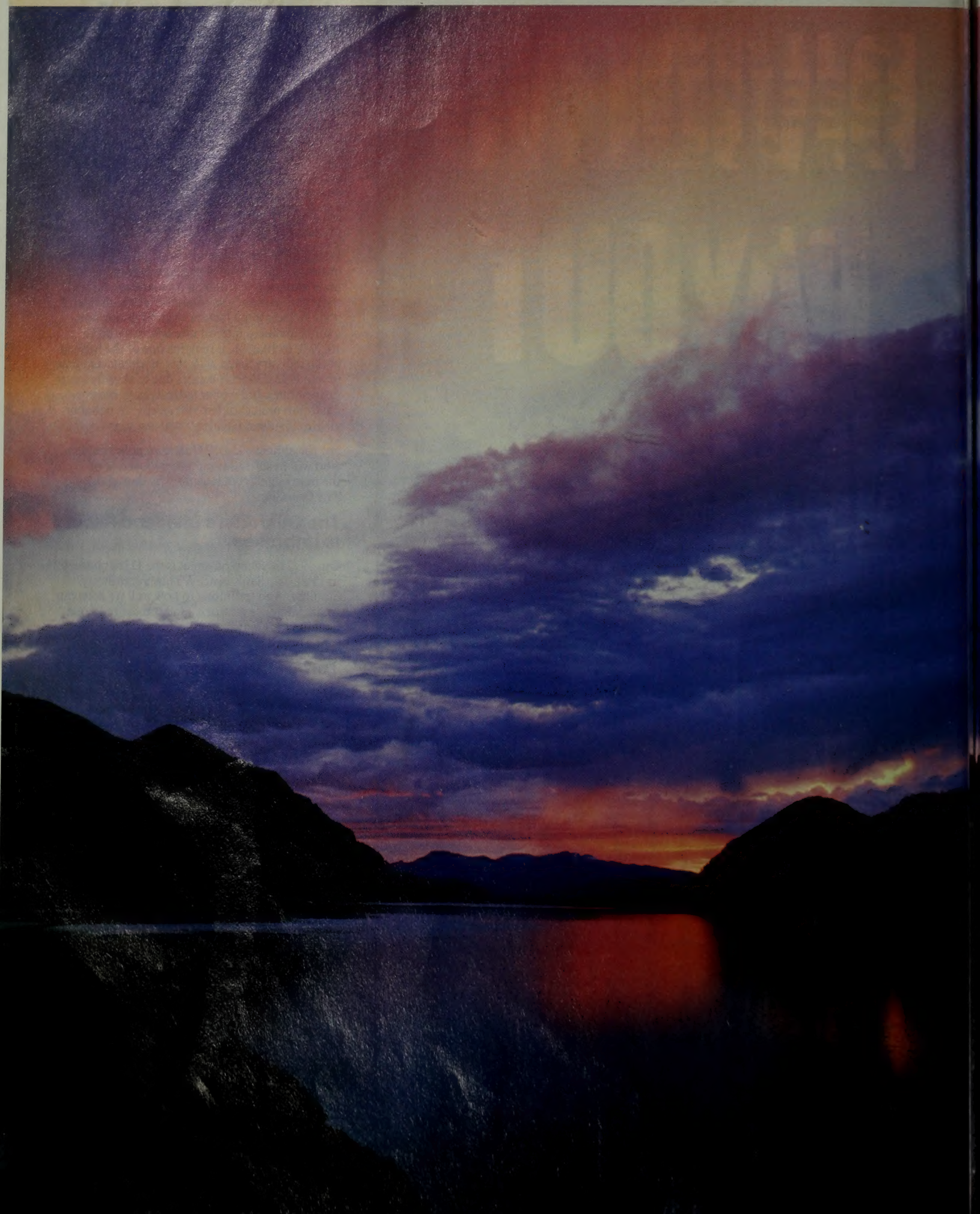
**Equity products are offered through Guardian Investor Services Corporation®, a wholly owned subsidiary of The Guardian Life Insurance Company.

You want to go where no one has gone before



This weekend.

If you want to go farther than all the others, consider the vehicle that did just that.

Explorer passed all the rest to become the best seller, the new standard for its class. And, Four Wheeler magazine's "Four Wheeler of the Year."

Nothing in its class has so much overall passenger and cargo room. Or, lets you go from 2WD to 4WD High and back, on the fly, at the push of a button. The 4.0L EFI V-6 and rear anti-lock brakes are standard.

Available amenities include Ford JBL audio systems, 6-way power seats, leather seating surfaces, and a tilt-up open-air roof.

*And now, Ford offers a 36-month/36,000-mile Bumper-to-Bumper warranty with no deductible.**

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Have you driven a Ford...lately?

Your Explorer is ready.

Buckle up—together we can save lives.

Forbes
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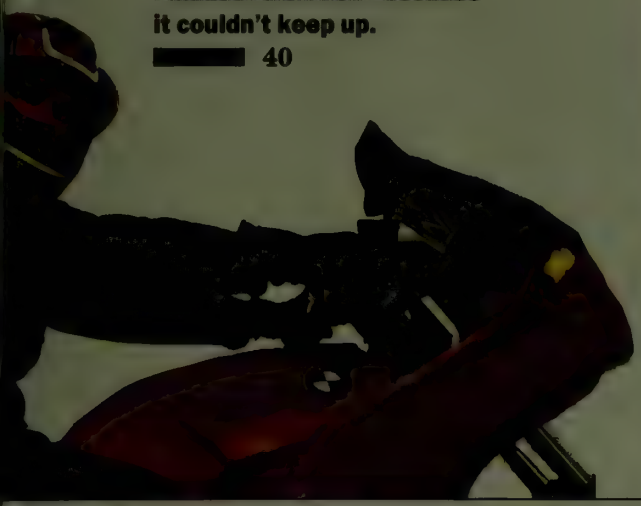

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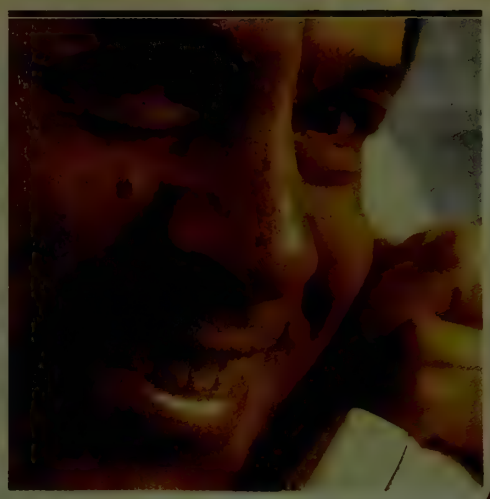

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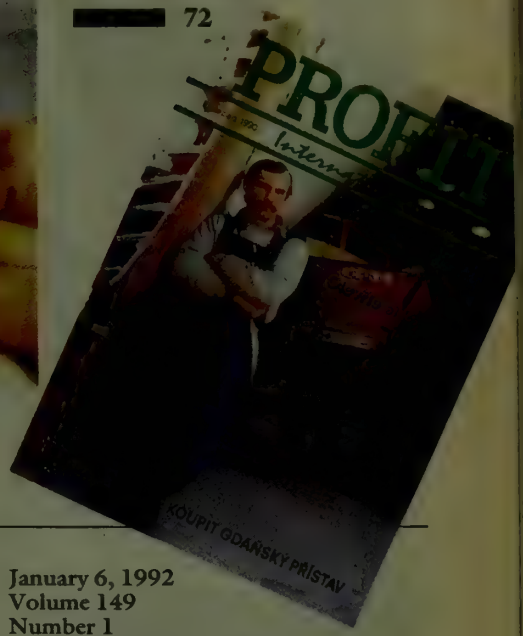

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January 6, 1992
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FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048.
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Bankers Trust

Some risks are clearly visible. Others hide from sight.

The unexpected is the one thing you can always expect.

Risk. It isn't always where you expect it to be.

Suppose that overseas political upheaval thins out the flow of a raw material you can't do without. That's a risk Bankers Trust can help you contain.

Or suppose a natural disaster cripples your payments system. Again, with our merchant banking help, that risk can be dealt with.

Like every financial institution, we trade, arrange financing, close deals. But everything we do is done with an eye to helping you profit from risk.

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Life can never be risk-free. Leadership isn't built on sure things. But with Bankers Trust behind you, you'll be leading from unparalleled strength.

LEAD FROM STRENGTH.

Forbes

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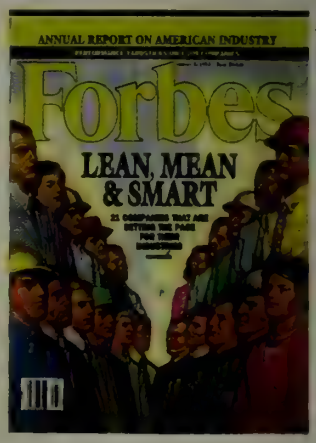
1992 has got to be better

FORBES MAGAZINE'S 44th Annual Report on American Industry doesn't make cheerful reading. For the first time since 1972, the median return on shareholders' equity for the companies covered in our survey slipped below 10%, down from 12.1% last year. Thus the typical big U.S. company earned just a bit over 6%, adjusted for inflation, on shareholders' money last year—hardly enough to encourage risk-taking. Return on total capital employed was even lower—7.6%, hardly high enough to encourage borrowing for expansion.



Cary Henne

Investors didn't fare all that well, either. Over the past five years the stock market, as measured by the S&P 500, rose 56%, but much of that gain was concentrated in relatively few stocks. The big gainers were a kind of latter-day Nifty Fifty, stocks of companies with growing earnings. But the median gain over those years for the 1,180 stocks covered in our stock market report was just 26%. With dividends reinvested, this amounted to a total average annual return of only about 8% for the typical stock. An investment in Treasury bonds, interest reinvested, would have done better.

And here's a scary number for you: The median FORBES company made a profit of less than 3 cents on every sales dollar in 1991. That's down from 4 cents last year.

All this should give our policymakers something to think about: How can we have a prosperous, job-creating economy when business people have so little money to reinvest?

And here's something else for the policymakers to think about, especially those who believe that U.S. corporations got themselves overloaded with debt during the 1980s: At the end of 1991 the median FORBES company had more than $2 in equity capital for every dollar in debt; 68 cents in equity out of each capital dollar. That's only a bit higher than the debt ratios at the start of the 1980s. So where's the decade of debt? In fact, if you compare debt to market value rather than to book value, the equity-to-debt ratio rises higher than 2 for 1. There are certainly problems of excessive debt in pockets of the economy, but in the overall corporate sector the problem is probably too little credit, not too much.

Our Annual Report was edited again this year by Stewart Pinkerton, aided by Steve Kichen, with the detailed statistical compilations under the usual capable supervision of Donald Popp and Ann Anderson.

James W. Michaels
Editor

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Due dalliance

THE 1980s keep coming back to haunt Wall Street. Last month Goldman, Sachs & Co., Morgan Stanley & Co. and Salomon Brothers tentatively agreed to pay $42 million to settle class-action suits charging that they defrauded investors in the 1988 collapse of Dallas' First RepublicBank (FORBES, *Oct. 1, 1990*).

The bank, once Texas' largest with $33 billion in assets, imploded just 14 months after being created in the merger of InterFirst Corp. and RepublicBank Corp. For a total of $10 million in fees, Goldman and Morgan issued fairness opinions and peddled First Republic securities—even though they apparently knew that RepublicBank was overvaluing more than $1 billion of its loan portfolio, and thus itself. No specific mention of this crucial information was ever made in the three prospectuses describing the merger.

Jim Knowles/Picture Group

Robert Stewart III and Gerald Fronterhouse
One of the worst bank marriages ever.

Salomon, which played a minor role, will kick in $5 million, with Goldman and Morgan forking over the remainder. With another $20 million from directors and officers—including former InterFirst boss Robert Stewart III and ex-RepublicBank chief executive Gerald Fronterhouse—the kitty for aggrieved investors will top $60 million, one of the biggest securities-fraud settlements ever paid.

It's not quite over. Investors are charging that the bank's accountants, Ernst & Young, had loans outstanding from RepublicBank at the time the auditors approved the bank's low loan-loss reserves. With no settlement, yet, a trial is set to begin in February.

–WILLIAM P. BARRETT

PS, who loves you?

AFTER SORTING OUT the mess at Salomon Brothers, Warren Buffett may want to turn his attention to another of his investments. PS Group, of which Buffett's Berkshire Hathaway owns 22%, is a moneylosing San Diego-based holding company whose holdings include a majority stake of a waste-recycling outfit called Recontek (*June 24, 1991*).

In November PS Group said it would pay $14 million—$20 a share—in PS stock for the 17% of Recontek that it does not already own. This does not look like a Buffett value investment play. Built upon an unproven process for extracting usable metals from hazardous waste, the fledgling Recontek (only $309,273 in sales during the first nine months of 1991) has lost $12 million in the last 21 months. Overall, PS itself lost $23 million in the first nine months of 1991. Berkshire Hathaway has a small paper loss on its investment. Recent price for PS shares: 29⅜, down from 72 in June.

Robert Grossman

Some people in PS' upper management stand to benefit from the proposed acquisition of the Recontek minority stake. Four PS executives and directors, including Chief Executive George Shortley and Chief Financial Officer Lawrence Guske, own about 133,000, or 3%, of the remaining

Even the strangest birds are packaging experts.

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Recontek shares. They bought the stock at $2 a share in 1987 and 1988. If the exchange offer is completed, the executives would turn a quick $2.4 million profit on their $266,000 Recontek investment by immediately selling their PS shares. No fairness opinion was sought by either side, an unusual twist in a deal involving a public company. –JOHN H. TAYLOR

Artless Agnos

FORBES won't have Art Agnos to kick around anymore. Last month the liberal San Francisco mayor lost his bid for reelection when he was handily beaten by former Police Commissioner Frank Jordan. Voters blamed Agnos for the city's mounting fiscal problems, growing homeless population and the exodus of local businesses *(Sept. 2, 1991)*.

Jordan, who ran a strong pro-business campaign, is inheriting some messy finances. San Francisco politicians narrowly dodged a $70 million deficit this year by striking a deal with the city's municipal unions to support

Reuter/Bettmann

Defeated San Francisco Mayor Art Agnos
Leaving behind a city in turmoil.

a proposed city charter amendment granting each union the right to collective bargaining. Though the deal balanced the budget in fiscal 1991-92, next year San Francisco faces the prospect of big raises for many municipal employees—already among the best paid in the country—and a deficit that is likely to run at least $100 million. –J.H.T.

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Ballot stuffer

CAROLCO PICTURES Chief Executive Peter Hoffman got overenthusiastic in his campaign to help Nebraska Senator Bob Kerrey win the White House in 1992. He sent a letter on company letterhead paper sporting its embossed silver logo, calling for contributions for Kerrey. He urged that donations be sent to Carolco's corporate offices.

Turns out that's illegal. The Federal Election Campaign Act of 1971 bans corporations' giving "anything of value" to solicit contributions for presidential candidates. That includes stationery or secretarial services.

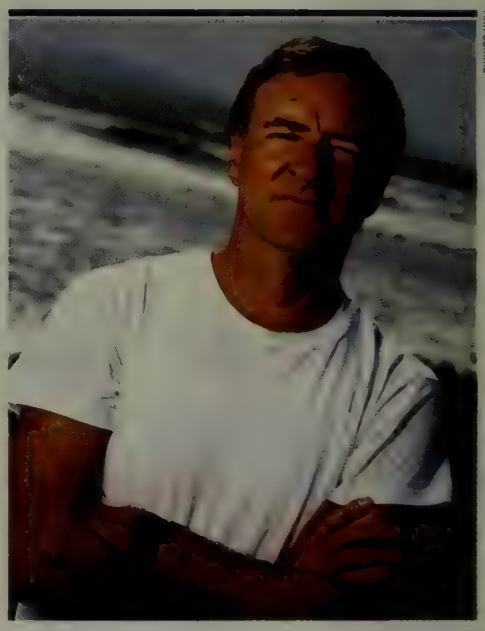
It was all an unfortunate error, says a Carolco spokesperson. And the company has been reimbursed by the Kerrey campaign. Hoffman didn't need to stir up any more trouble. He was already on the outs with Carolco's chairman and majority stockholder, Mario Kassar. The Hollywood reckoning now is that Hoffman will be out of a job once his contract expires at the end of March.

–TODDI GUTNER

Peter Kelly

LEFT: Carolco's Peter Hoffman **An overenthusiastic campaigner.**

BELOW: Alex Benton **Will his oil deal go dry?**



Ann Summa

So long, Luis

AFTER JUST five months in the job, Luis Mendez, managing director and head of capital markets at Wasserstein Perella, is back on The Street. That's quick, even by Wall Street standards.

Mendez was supposed to bring in fees from equity and debt underwritings to help shore up the firm's dwindling mergers business. But despite record underwritings on Wall Street this year, Wasserstein Perella comanaged just one, a $200 million offering of notes for the Rowan Cos., an oil service concern, in early December.

Wasserstein claims Mendez will stay on as a "consultant." His new lower profile will break few hearts at Wasserstein. The job-hopper—from high-level positions at Dillon, Read to Morgan Stanley to First Boston—has a reputation for being, well, difficult.

Scaling back

THE MARKET may be hot for new stock offerings, but the quality can be something else. Case in point: PaineWebber's December underwriting for Benton Oil & Gas. Originally PaineWebber proposed 3 million shares at around $12; at press time the deal seemed likely to be cut to 2 million at $9.

Why the scaling down? On the basis of December 1990 estimates from John S. Herold, a Greenwich, Conn. engineering consulting firm, Benton is worth $6.75 per share. Sales may be up 39% in the last six months, but it's mostly from one small field. And company founder Alexander Benton (FORBES, *Apr. 1, 1991*), who made his name redrilling oilfields that companies like Texaco had stopped drilling, has been cashing in on the stock's rise from $1.25 in 1989 to a recent high of $16. He sold nearly 90,000 shares between May and October, although he still owns over 1.2 million shares.

The market also sniffed at a private debt offering by Benton last fall; it

John Segal

raised less than $5 million of a proposed $20 million.

–JEAN SHERMAN CHATZKY

Columbia stiffed?

IT LOOKED to be a great deal when Columbia Pictures paid Orion Pictures $175 million in 1990 for foreign distribution and video rights for Orion's next 50 films. No longer.

Orion has handed over just 11 pictures so far. Another 12 have been produced but not released in the U.S., but now that Orion has filed for bankruptcy it's not clear if the bankruptcy court will uphold Columbia's rights to distribute those films abroad.

There has been one megahit, *Silence of the Lambs*. The other potential winner involved, *The Addams Family*, did well in the U.S., but will it play in Paris? A former Orion executive says that though the Addams clan was successful on American TV, the rest of the world yawned. –LISA GUBERNICK

Wolf-crying

THE PLAN by Minnesota politicians to provide more than $800 million in loans and tax breaks to cash-strapped Northwest Airlines ran into some unexpected trouble. The loan pact had looked to be a shoo-in at the state's Legislative Commission on Planning & Fiscal Policy. But then Bruce (The Vulture) Hendry, who makes his living picking through the bones of failing companies in search of undervalued assets, launched a series of full-page ads. They pictured Alfred Checchi, cochairman of NWA Inc., the airline's parent, as a voracious wolf eagerly gobbling up dollar bills. Hendry warned that the Northwest "giveaway" would cost each Minnesota family $600.

Checchi was not amused. Northwest responded to the ads by labeling Hendry "a financial wheeler-dealer who knows little of building but much of destroying."

Hendry's message got through to voters, who bombarded commission members with angry telephone calls. Though the loan package eventually passed, Hendry warns, "This turkey will haunt the state for years to come." –JOHN H. TAYLOR ■

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The way to proselytize

SIR: Re "Why capitalism hasn't won yet" *(Nov. 25, 1991)*. Mr. Nelson is right about the acceptance of an economic system depending ultimately upon the acceptance of its moral premises. The moral basis of capitalism, however, is rational self-interest, not religious altruism. In seeking to justify capitalism on religious grounds, Mr. Nelson is playing into the hands of its enemies.
–PETER D. MCALLISTER
Smithtown, N.Y.

SIR: The spiritual reawakening predicted by Megatrends 2000 is clearly under way in former communist nations. They have learned that heaven on earth is most likely when economists become lay theologians.
–GARY MOORE
Sarasota, Fla.

Different wavelengths

SIR: Your scurrilous article ("Strength from its gray roots," *Nov. 25, 1991*) made every attempt to prove that AARP does not represent the interests of the nation's older persons. The fact is AARP seeks the views of its members through extensive polling and numerous community forums throughout the year. We continuously monitor the letters from our members. The all-volunteer Board of Directors charged with steering this highly developed policymaking process relies on input from members to guide its decisions.
–VICTOR HURST
Chairman
AARP Board of Directors
Washington, D.C.

SIR: As one who has tried to fight AARP policies from within, I found that its leadership has a stacked deck. AARP is just a moneymaking machine which makes deals with insurance agents and travel companies.
–JERRY STEINMAN
West Nyack, N.Y.

SIR: The AARP does not represent the interest of its middle-class members. For example, in their *Modern Maturity* magazine in September 1991, they wrote proudly of the accomplishments of AARP's Utility Intervention Project, which intervenes in utility rate cases. This program to lower the rate of return for a utility company hurts the millions of retired middle-class people who depend upon dividends and stock price increases from utility stocks in their pensions, mutual funds and individual ownership.
–CARL J. OLIEN
Sun City West, Ariz.

Going after them

SIR: Re "An unproductive war against drugs" *(Nov. 11, 1991)*. If the drug industry is "competitive," it is certainly not on prices. It is the anticompetitive behavior and the irresponsible pricing practices of this nation's pharmaceutical manufacturers—not any report or legislative proposal—that has placed the industry under the cost containment microscope.

What other "competitive" industry can, and consistently does, increase the prices on its products even after their patents expire and so-called competition is introduced into the market? The unfortunate result is that skyrocketing prescription drug prices are contributing to unprecedented insurance premium increases for both business and consumers.
–DAVID PRYOR
Chairman
United States Senate
Special Committee on Aging
Washington, D.C.

Not so fast

SIR: Re "Fast forward to the future" *(Fact and Comment, Nov. 25, 1991)*. Allowing the telephone industry into the cable business is like turning King Kong loose in Manhattan. If the FCC does allow the telephone industry into the cable business, at the very

least there should be safeguards that will not allow them to subsidize their futuristic services with their plain old telephone services.
–Roy L. Bliss
Tulsa, Okla.

Good for you

Sir: I was shocked to see the author threw out the herb pills his acupuncturist gave him because he thought the names of the herbs sounded funny ("Me and Dr. Gong," *Dec. 9, 1991*). Perhaps I should throw out medicine a Western doctor gives me because it has a funny name.
–Ellen M. Berger
Cambridge, Mass.

The Reichmanns

Sir: Re "Property rich, cash poor" *(Nov. 11, 1991)*. Describing the Reichmann family as "secretive" suggests they have something to hide. They don't. The Reichmanns and the company's senior executives are forthcoming on details of the company's international development and nonrealty activities. Personal privacy and financial details of their privately held enterprises are another matter.

As for "curbing exploration," O&Y-controlled Gulf Canada Resources Ltd. is in a $1 billion (Canadian) joint venture with British Gas Plc. and the Russian oil company Komineft to develop oil and gas projects in the Soviet Arctic.

Gulf-owned Asamera Inc. began drilling wells in Indonesia in November. The Campeau financial collapse has brought full ownership of a 67-story tower in Toronto's financial district into O&Y's portfolio. The $60 million Li Ka-shing has invested as a joint venture partner in the renovation of an O&Y building on Park Avenue in New York is not a case of "de facto default" but rather a shrewd investment by the Hong Kong family.

Leasing at Canary Wharf is admittedly running behind schedule, but it is not the big headache the writer suggests.
–S.L. Fordsham
Vice President & Director
Design and Communications
Olympia & York Developments Ltd.
Toronto, Ontario

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"With all thy getting get understanding"

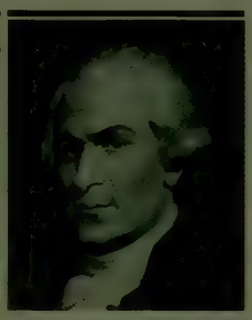
Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

HOW TO MAKE THE ONCE EVIL EMPIRE SAFE FOR DEMOCRACY

PREVENTING the Commonwealth of Independent States (formerly the Soviet Union) from having a hyperinflationary breakdown should be our top foreign policy priority. Chaos will discredit free-market democratic forces, making possible the rise of an anti-American, ultranationalistic, fascistic, authoritarian regime. Moscow still has thousands of nuclear warheads and the means to rain them upon us. A democratic, pro-American government would be very much in our interest.

The ruble is falling fast. Here's a simple, brilliant plan for boosting the ruble a hundredfold, from less than a penny to a dollar: Issue billions of ruble bonds with the ruble guaranteed in gold at the rate of R350 per ounce. What would make the bonds and their gold guarantee credible is the fact that the government owns just about all the assets in the nation: 50 million housing units; 5.5 billion acres of land; all the oil, gold and other minerals underground; factories; military equipment; office buildings, etc.



Brown Brothers

Sygma

George Washington had Alexander Hamilton. Can Boris Yeltsin find a similar financial genius?

The concept was stitched together by economic consultant Jude Wanniski of Polyconomics and a handful of like-minded thinkers. Wanniski and his group figure the nation has assets worth at least $4 trillion (U.S. assets exceed $45 trillion). Even if these valuations are cut to bargain sale prices, the government owns enough to more than guarantee the integrity of the R600 billion now in circulation, as well as the $100 billion it owes foreign creditors.

This unexpected ruble windfall for the average Russian would rapidly end food shortages. If the government followed through with privatizing housing and collective farms, commerce would grow rapidly.

This idea—so simple, so radical—has precedence. The U.S. under Treasury Secretary Alexander Hamilton did something of the same thing to revive its economy 200 years ago. America then was considered a deadbeat; the dollar was virtually worthless. Hamilton pegged the dollar to gold, pledging receipts from sales of U.S. public lands to back up its bonds. Overnight, the U.S. became a triple-A international credit; foreign capital flooded in.

Do you think U.S. policymakers have the imagination, the boldness to urge Yeltsin to adopt a Hamiltonian solution before it's too late?

AT LAST, SOME PROSPERITY

THE CLICHE about its being darkest before the dawn will hold true in '92. The economy will turn around. What will trigger the growth will be what many "responsible" economists, politicians and editorial writers deplore—a meaningful tax cut, particularly of capital gains.

Recognizing that if he loses the economic battle he loses everything, President Bush will soon be adopting the demeanor he displayed during Desert Storm. He has no desire to start collecting Social Security checks next January. A number of congressional Democrats will also go for a tax cut to show voters they do more than kite checks, stiff restaurants and harass women.

The economy is ready to roar ahead once the tax underbrush is cleared away. Fabulous new technology (in fiber optics, digital screens, microprocessing, etc.), growing immigration and burgeoning Latin markets for our exports will all be growth catalysts. Also helping the recovery will be low interest rates. Consumers will refinance mortgages, which will increase monthly cash flows. The lower levy on capital gains will raise real estate and equity values, putting consumers in a more positive mood. Business starts will cease sliding.

The Dow Jones will go above 3500; if the capital gains tax cut is deep enough, it will easily breach 4000. Long- and short-term interest rates will continue trending down. Capital spending will be unexpectedly strong by the fourth quarter. The most immediate hurdle for prosperity will be the continuing deflation in commercial real estate. By the second half, however, lower capital gains taxes will provide desperately needed relief.

The election? A politically born-again George Bush will win, although he will be scarred along the way.

ONE MEASURE THAT WILL DO LITTLE GOOD

is the reintroduction (for the fourth time in three decades) of the investment tax credit. John Kennedy tried it first in 1962, but it took a subsequent cut of personal taxes to get the economy really moving again. The incentive was in effect for various periods during the 1970s, the most miserable economic decade since the Thirties.

HE HAS A POINT

Glen Davis

AT A RECENT FORBES LUNCHEON with top U.S. executives, Israeli Prime Minister Yitzhak Shamir said, "It's difficult to imagine a stable and lasting peace in our neighborhood without greater democracy among our neighbors. Peace is the natural offspring of democracy." He's right.

Democracy has advanced in Asia, Latin America, Eastern Europe and even Africa. But not one Arab nation has made the transition. Free elections are almost as rare in that part of the world as face-to-face Arab-Israeli negotiations.

Democracy and free-market economics have made war unthinkable between such ancient enemies as France and Germany. Other than our own Civil War, there has never been armed conflict between democratic states. Yet the U.S. and Western nations remain curiously reluctant to provide support, financial or even moral, to nascent democratic forces in the Mideast.

HAVOC IN HAITI—A WARNING

LAST FALL'S Haitian coup is a reminder that nurturing a new democracy is no easy task. Because of Haiti's size, appalling squalor and voodoo culture, our foreign policy pooh-bahs see no warning there for infant democracies in Latin America and Europe. While these countries are different from Haiti, the fragility of their democracies is not.

Nor is the outcome of an economic failure—an increased flow of refugees. Emulating Britain's barbaric policy of forcibly shipping Vietnamese refugees back home, the U.S. government began sending Haitians back to Haiti. Fortunately, a federal judge halted this involuntary return, thereby saving many of these people from certain murder by a vengeful army.

A refugee river many magnitudes greater is possible in Europe if Russia collapses into hyperinflation.

* * *

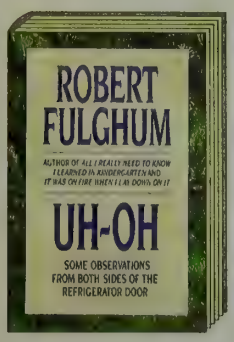
The Haitian putsch, conducted by army thugs unaccustomed to civilian control and chafing at their inability to rob and terrorize citizens at will, is the latest disheartening setback in that unhappy land. Last summer I was part of a delegation with Vice President Quayle that visited Haiti at the end of a swing through Latin America. Thanks to Quayle's intervention the previous year, the army had allowed elections to take place, and Quayle wanted to stop by and pay his respects. One could feel the desire of the new parliament to break with Haiti's bloody, dictatorial past.

If diplomacy fails, the U.S. should put together an inter-American military force to oust the putschists. Sanctions are starving an already impoverished population.

Haiti's history is particularly poignant, considering its heroic beginnings. It was the first country after the U.S. to establish independence in this hemisphere but faced obstacles far more formidable. A slave state that rose up against and defeated its French masters, Haiti preserved its sovereignty in a hostile world.

With a benign government, this country would make rapid economic strides. Tens of thousands of Haitian immigrants in the U.S. are achieving impressive progress. Given its brave birth, one especially hopes this benighted land will someday soon redeem the promise that it began with nearly two centuries ago.

LIGHT, ENLIGHTENING READING



Uh-Oh—by Robert Fulghum (Villard Books, $19). This third wee volume of a onetime minister's down-to-earth observations on daily life has been unfavorably compared by some with his first two, highly acclaimed successes. But there are enough gems to justify buying and reading this book. His insights on motors, hiccups, dogs, singing, how-to-know-when-you-are-ready-to-get-married, dancing and refrigerators delightfully ring true.

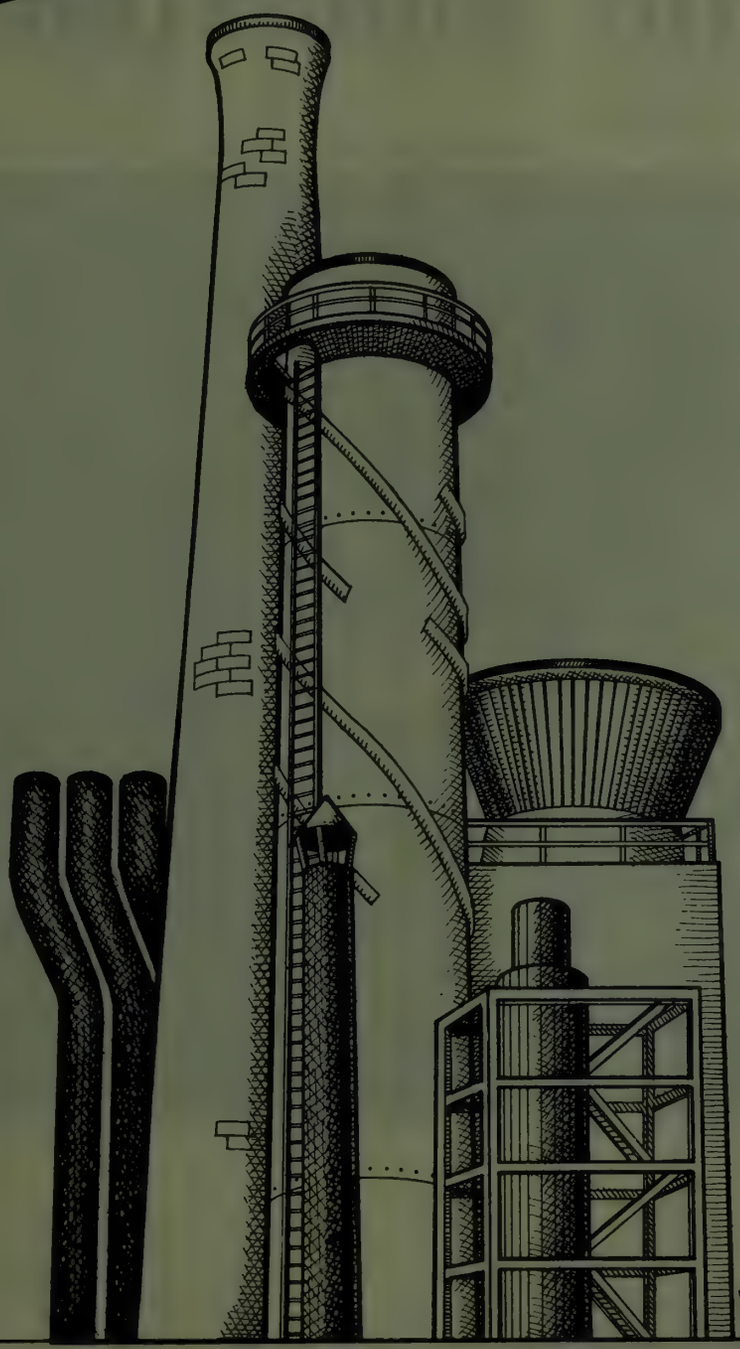
Excerpt: *On a very local scale, a refrigerator is the center of the universe. On the inside is food essential to life, and on the outside of the door is a summary of the life events of the household. Grocery lists, report cards, gems of wisdom, cartoons, family schedules, urgent bills, reminders, instructions, complaints, photographs, postcards, lost and found items and commands. The door of the refrigerator is a chronicle of current events not found on TV or in the daily newspaper.*

Comeback—by Dick Francis (G.P. Putnam's Sons, $21.95). Another can't-put-it-down-till-you're-finished whodunit from the mystery maestro. You don't figure out who the people-killing, horse-killing villain is until Francis lets you. After reading this book, you will never go to a fugu restaurant in Japan or look at staples the same way again. You will also learn interesting trivia, from how British diplomats are ranked to common mistakes firebugs make.

Excerpt: *"A woman's favorite animals," [Quincy] said carefully, "are a mink in the closet, a jaguar in the garage, a tiger in the bed—and a jackass to pay for it all."*

"Smokestack" industry is the heart of American manufacturing. The problem is: How do you cut down the smoke without shutting down the stack? One of the most practical solutions is also one of the most efficient and economical. Natural gas. It's the cleanest of all fossil fuels, reducing the emission of virtually all air pollutants—CO, CO_2, NO_x, SO_2 and particulates—from roughly 30% to more than 99%, depending on the fuel replaced. Better still, it's the most efficient fuel to burn. So it can help industry meet new clean air standards—and remain competitive. Best of all, our abundant supply—plus over a million miles of pipeline to deliver it—stack the energy future in America's favor.

Thank you for not smoking.



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Sadly, many of the new cars you
see today have the tendency to
resemble one another. It's as i
the recent penchant for computer designs

Only Your Milk Shoul

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fessional drivers using special safety equipment and procedures. This should not be attempted on public streets or highways. 'The driver's side Supplemental Restra

s stunted individuality and left everything the exact same flavor.

Vanilla.

Not so with the Lexus SC400. In fact, during the entire developmental process, the organic shape was never committed to conventional two-dimensional drawings. Instead, only three-dimensional clay sculptures were used to constantly accentuate the graceful contours.

e Homogenized.

Like the exterior, the interior, too, is without a hard edge. The dash wraps around the cockpit, elegantly trimmed in Bird's-Eye Maple. Even the leather seats, with special concave backs and an automatic walk-in device, offer something rarely seen in a sport coupe. A back seat that can actually be used as a back seat.

All of which sounds quite civilized compared to what lies directly in front of you. A 250-horsepower, 32-valve, V8 engine that, with a hushed growl, accelerates from 0 to 60 in 6.9 seconds.*

Of course to help hold this power in check, sophisticated anti-lock disc brakes and a driver's-side airbag SRS† are responsibly provided.

No, the Lexus SC400 is definitely not your common car. It is, however, the prescribed cure for one.

LEXUS

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USA-LEXUS). *This 0-60 mph performance capacity figure is for comparison only, and was obtained with prototype vehicles under test-track conditions by pro-
m (SRS) will inflate only in a severe frontal impact. In a moderate collision, the three-point seat belt provides primary protection; the airbag will not inflate.

Other Comments

Latin Tidbits

"TRIVIA," I SAID, "means 'three roads' in Latin. Wherever three roads met, the Romans put up notice boards with the news on. Little bits of information."
–*Comeback,* by Dick Francis

Double Victory

As U.N. Secretary General Pérez de Cuéllar sees it, had it not been for the Persian Gulf war, American hostages might still be in captivity. The overwhelming American victory in the war produced a dynamic in the region that positioned Iran to fill the vacuum left by a weakened Iraq and to act as a reliable economic partner and diplomatic player.
–ELAINE SCIOLINO, *New York Times*

Trial by Fire

BOARDS OF DIRECTORS could bring sanity to this [executive raise] process by dispensing with the silly surveys [of other CEOs' compensation that consultants crank up]. CEOs should submit a pay request that answers four questions:

- What should you be paid? (If you want to hire a consultant, go ahead—at your expense, not the firm's.)
- If you left the firm, what could you earn and where?
- If you died today, who could take your place? (Is she or he well prepared? If not, why not?)
- What is the lowest compensation you would accept? (Please attach a letter of resignation in case we offer less.)

–ROBERT J. SAMUELSON, *Newsweek*

Going Nowhere

"I DON'T UNDERSTAND what is going on. Everybody seems to be working, yet nothing comes of it."
–LYUDMILA TIKHONOVA, engineer in Moscow, *New York Times*

Blueprint for Recovery

CAN A PROGRESSION from recession to depression be avoided? Restore industrial incentives (e.g., accelerated depreciation, etc.) in order to drastically increase new investment in cost reducing plant and equipment and in product improvement and development. Reestablish the competitive stimulation of industrial progress by renewing the enforcement of antitrust legislation and by limiting the monopolistic practices which result from excessive concentrations of corporate capital and thereby slow industrial progress. Provide strong incentives for saving vs. consumption, eliminate tax from income on the first $100,000 of deposits in any bona fide savings institution. Investigate the feasibility of refinancing federal bonds with new issues with lower coupon interest, or possibly zero coupons, and defer cash payment interest by substituting tax-deferred interest coupons with schedule of maturity redemption dates and values.
–JOHN WINTHROP WRIGHT, CEO, Wright Investors' Service

Too Much, Too Late

THE PRESIDENT recently was willing to spend some time with eight economists from the private sector. Odds are that he received eight completely different solutions to our current economic woes. The other problem with economists is they do tend to be gloomiest just as the economic outlook is about to turn bright again.
–DR. EDWARD YARDENI, chief economist, C.J. Lawrence, *Weekly Economic Analysis*

Now I don't know which country I am living in, if it is a country.
–TANYA PAVLIKOVA, seamstress in Moscow

Traveler's Tales

In a Leipzig elevator: Do not enter the lift backwards, and only when lit up.
–*Far Eastern Economic Review*

Proper Perspective

IN THE SUMMER of 1959, just out of college, I have a job [as] the night desk clerk in a lodge. One week the employees had been served the same thing for lunch every single day. I was outraged. Sigmund Wollman, the night auditor [and survivor of Auschwitz], sat quietly watching me with sorrowful eyes.

"Fulchum, you think you know everything, but you don't know the difference between an inconvenience and a problem. If you break your neck, if you have nothing to eat, if your house is on fire—then you got a problem. Everything else is inconvenience. Learn to separate the inconveniences from the real problems. You will live longer. And will not annoy people like me so much."
–*Uh-Oh,* by ROBERT FULGHUM

Drawing by Dana Fradon, © 1991 The New Yorker Magazine, Inc.

"Where did all the money that no one seems to have go?"

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VINO

Italian Wines. The Quality of Life.

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

SINGAPORE'S BRIGHT PROSPECTS

WHEN YOU LEAVE SINGAPORE'S airport, your drive into the city is like no other urban approach. Clean new highways that are landscaped with colorful, exotic tropical blooms intermingled with oleander give the impression of driving through the longest flower show on earth. On a recent trip to launch FORBES' Chinese language edition, President and Editor-in-Chief Steve Forbes and I passed vast public housing tracts on the way in from the airport, supplanted a few moments later by Singapore's massive and rapidly changing skyline: four-star hotels, offices and convention center towers, and an infinite variety of shops, all interspersed with many parks.

Singapore's continued, and growing, prosperity is aided by its Economic Development Board. This quasi-public body sees as its mission the task of encouraging and helping foreign investors to come into Singapore with their capital, creating new employment and adding wealth to Singapore's economy. The Board emphasizes that the government is determined to maintain the most favorable business climate possible so that private enterprise, and with it the well-being of citizens, can flourish.

Raffles Hotel: the charm of old Singapore.

Singapore has a problem most countries would envy: almost negative unemployment, plus a major shortage of labor. As a result, the government is cooperating in the development of new industrial, recreational and residential areas on newly filled land or on islands leased from Indonesia.

Singapore has no interest in running or even tightly regulating those enterprises, an attitude that is most encouraging to foreign investors. Former Prime Minister Lee Kuan Yew was one of America's best friends during his long rule. He is fully aware of how much prosperity owes to a strong defense capable of deterring war and ensuring the peaceful atmosphere that a successful business requires.

Singapore's government is frequently attacked for its denial of unlimited free speech and press. Its rationale is that its society requires stability and that Singaporeans have no real experience with the unlimited freedom enjoyed by other peoples. But the winds of change are beginning to blow. The *Asian Wall Street Journal*, long restricted to a circulation of some 400 copies, has signed an accord with the government that allows it to increase to 2,500 copies daily, with more to follow.

Brigadier General Lee Hsien Loong, Lee Kuan Yew's son and number three in the government, told us that the administration's concern over the recent legislative election, in which four opposition candidates were elected, was focused more on finding out what dissatisfactions had led to the defeat of the government in those four constituencies than on blocking dissent. Of course, to Western eyes familiar with our elections, a legislative body with only four opposition members would be considered a major triumph.

Meanwhile, $2.5 billion of foreign investment pours in annually, and Singapore's fully employed people are very well housed, while tourists and conventions fill the hotels. One of the finest of those hostelries is the newly reopened Raffles Hotel—a legendary resort of the 1890s through the 1920s for writers, scholars, celebrities and royalty—now fully restored. Raffles has regained all its old glories, and more, and is in many ways a symbol of Singapore's historic past modernized for the 21st century.

All in all, Singapore is another of the Pacific Rim's classic examples of the strength of free enterprise and free-market capitalism as contrasted with the squalid failure of socialist and communist economics seen in North Korea, mainland China, Cuba and what used to be the U.S.S.R. As Singapore moves toward securing more freedom for its people, its future seems brighter than ever. For, as we know, there can be no real continued economic freedom without political and personal liberties. ■

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Job trends across the millennia

ECONOMIC GROWTH IN THE U.S. in the next 10 to 15 years will be restrained by the expected slow growth of the labor force, according to a new study by the Bureau of Labor Statistics. The total labor force in the U.S. is projected to grow by about 1.3% a year between now and 2005, down from about 2% per annum in the past 15 years. At the projected rate, the number of people employed in 2005 will be a little over 142 million, up from 123 million today.

Most recent trends are not expected to change much. The working population will steadily age, for instance; this should help boost productivity, as the experience level of the work force increases in step, especially as we leave the heavy lifting jobs behind us. But the rapid growth of women entering the work force is now expected to slow, to 1.6% a year from 2.3% in the earlier 15-year period.

One reason for this expected trend, explains Ronald Kutscher, associate commissioner at the BLS, is that an increasing proportion of working women have been dropping out of the work force to have children.

The single biggest change in the latest study is the increasingly rapid expected growth in labor market participation by minorities—blacks and Asians and especially Hispanics. By 2005, minorities are expected to account for more than 25% of all working people in the U.S. Given regional concentrations, says Kutscher, this means that the labor force in some areas will involve 50% or more of these groups. The fastest growth will occur among Hispanics, who are expected to make up over 11% of the work force by 2005, up from 7.7% in 1990.

Manufacturing's share of total national output is projected in the BLS study to remain around 19%, meaning that the nondefense sector will exhibit considerable growth to take up the slack left by defense cuts. But the share of employment taken by manufacturing will continue to decline, from 24% in 1975 to 17.5% in 1990, and to 14% in 2005.

That's obviously a hopeful message for productivity. But a breakdown of where those jobs will mostly be lost will provide a field day for the protectionists. Textile and garment jobs will show marked declines. And basic industrial jobs, such as running a machine tool, will be automated out of existence.

One rather depressing result from the study is that jobs for lawyers and paralegals are also expected to continue to multiply.

The service sector will continue to show the fastest job growth; almost all of the 30 fastest-growing job categories are in this sector. Health care jobs naturally dominate this list.

"Each previous study has underestimated growth in the medical sector," says the BLS' Kutscher. "It's kind of breathtaking how rapidly it continues to grow." As the population continues to age, the trend seems unending.

Automation will, however, take its toll of many mundane service jobs, such as filing clerks, accounting machine operators and the like. Increasingly, directory assistance from phone companies will be available by computer. And services will see increased foreign competition. Many back-office jobs in the financial and publishing industries have already moved to lower-cost regions like the Caribbean Basin.

The most serious implication of the study applies to today's teenagers and preteens. All of the job categories that are expected to grow the fastest require specific qualifications. And the first one required is high school graduation. This should particularly worry the Hispanic community, because of its high school dropout rates. Says Kutscher: "Today's kids must realize that if they don't finish high school, they've committed job hari-kari."

Examples of jobs projected to have the fastest growth between 1990 and 2005, and some expected to have the greatest decline.

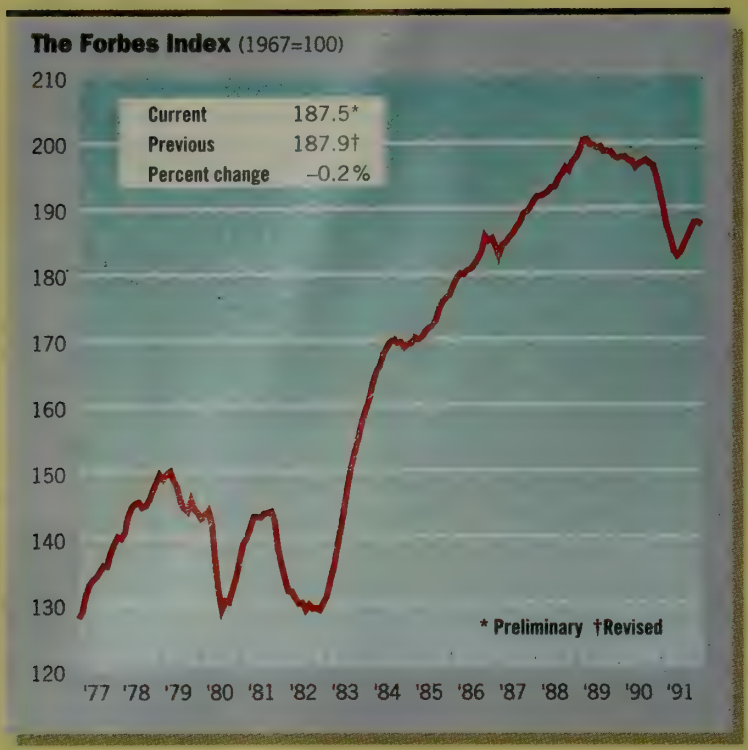
Winners and losers

Occupation	% change	Occupation	% change
Home health aides	92%	Telephone operators	–59%
Paralegals	85	Electrical equipment assemblers	–48
Systems analysts	79	Private child care helpers	–40
Physical therapists	76	Precision assembly workers	–37
Operations research analysts	73	Textile machine operators	–31
Psychologists	64	Utilities meter readers	–25
Travel agents	62	Machine tool operators	–24
Corrections officers	61	Farm workers	–21
Flight attendants	59	Garment sewers	–20
Management analysts	52	Bank tellers	–5

Source: Bureau of Labor Statistics.

THE FORBES INDEX

BY TIMOTHY DODMAN



The economy has two things going for it: low inflation and low inventories. The nonseasonally adjusted Consumer Price Index rose only 0.3% from October to November. Manufacturers' inventories declined for the seventh time in eight months. Since inventory liquidation can go on only so long, purchases should soon be matched by new manufacturers' orders. For now, the news is still dreary: Industrial production fell 0.4% in November, and new unemployment claims jumped 4.4%. After six months of marginal increases, the Forbes Index went down.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	7.5%
Auto sales year to date vs 1990[1]	Ward's Automotive	–11.3%
Index of leading indicators Sept vs Aug	Dept of Commerce	–0.1%
Trade balance 12 months ended Sept 1991	Dept of Commerce	–$75 bil
All-commodity producer price index Nov vs Oct[2]	Dept of Labor	0.0%
GDP 3rd quarter vs. 2nd—annualized growth	Dept of Commerce	1.7%
M2 (3-month change)—annualized growth[3]	Federal Reserve	–0.8%

[1] U.S.-based manufacturers, excludes imports, as of 12/10/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

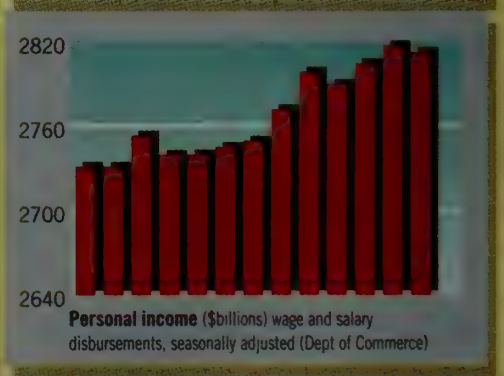
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)

Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

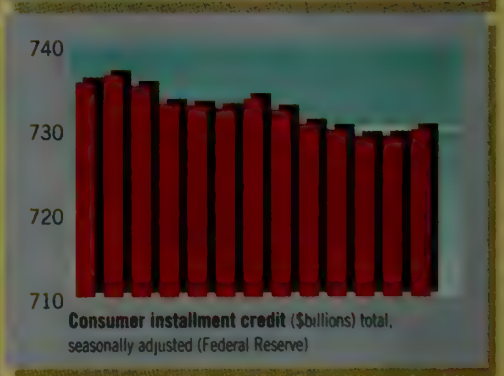
New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)

New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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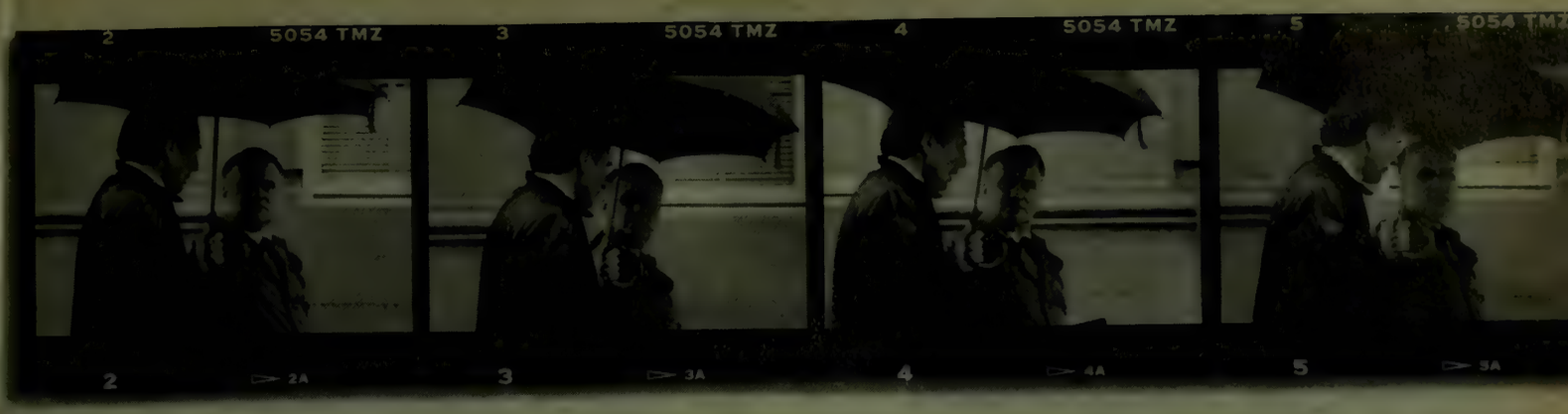

"So, learn anything about that company?" *"I think it's in trouble."* "Shaky financials?"

"No, solid numbers. And management." "But...?" *"Technology's about to kill their market."* "Whoa!"

"In two years, they'd be better off selling leisure suits." "Where do you keep your crystal ball, anyway?"

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The RJR buyout has been a smashing financial success. But enhanced debt ratings don't sell cigarettes.

Meanwhile, back at the retail counter

By James R. Norman

NO QUESTION: Henry Kravis has pulled it off. By selling over $7 billion of new stock in RJR Nabisco Holdings and almost $6 billion of assets, his Kohlberg Kravis Roberts & Co. has cut RJR's debt from $29 billion at the time of the buyout in early 1989 to about $14 billion today. In mid-December, rating agencies raised RJR bonds back to investment grade. Meanwhile, RJR common has doubled since last winter, despite the tremendous dilution from the issuing of new shares.

That's the financial picture, and it is a beauty. But RJR doesn't just operate in the financial world. It must also sell lots of Ritz crackers, Oreo cookies and—most of all—lots of cigarettes. Louis V. Gerstner Jr., lured from American Express to be RJR's chairman and chief executive, must see to it that these goods keep moving off the shelves and into consumers' hands. Especially domestic cigarettes, which bring in a hefty 40% of RJR's revenues and two-thirds of its operating revenues.

Operating profit margins on RJR's $5 billion U.S. tobacco business remain an enviable 40%. But there are signs of deterioration. RJR continues to lose market share at a worrisome rate *(see chart)* in a cigarette business that is itself shrinking steadily by 3% to 4% a year. RJR's foreign tobacco sales are growing but are less than half as big as the U.S. operations and half as profitable.

In the U.S. a price war of sorts has roiled the long-disciplined tobacco market, resulting in the biggest shifts in market-share trends since the 1950s. While RJR management was preoccupied with financial problems, Philip Morris and other competitors were getting ahead in a burgeoning new market for cut-price smokes. In just two years, discount cigarettes have doubled their volume, to a quarter of the domestic market. They are heading quickly toward a one-third share. With cigarettes at $2 a pack and the economy in recession, even diehard smokers are watching their pennies.

Ironically, discount cigarettes was a market RJR had almost single-handedly created in 1985 when it launched Doral, selling for 40% less than its regular Camels and Winstons. But RJR's once dominant share has been outpaced by powerhouse Philip Morris *(see chart)*.

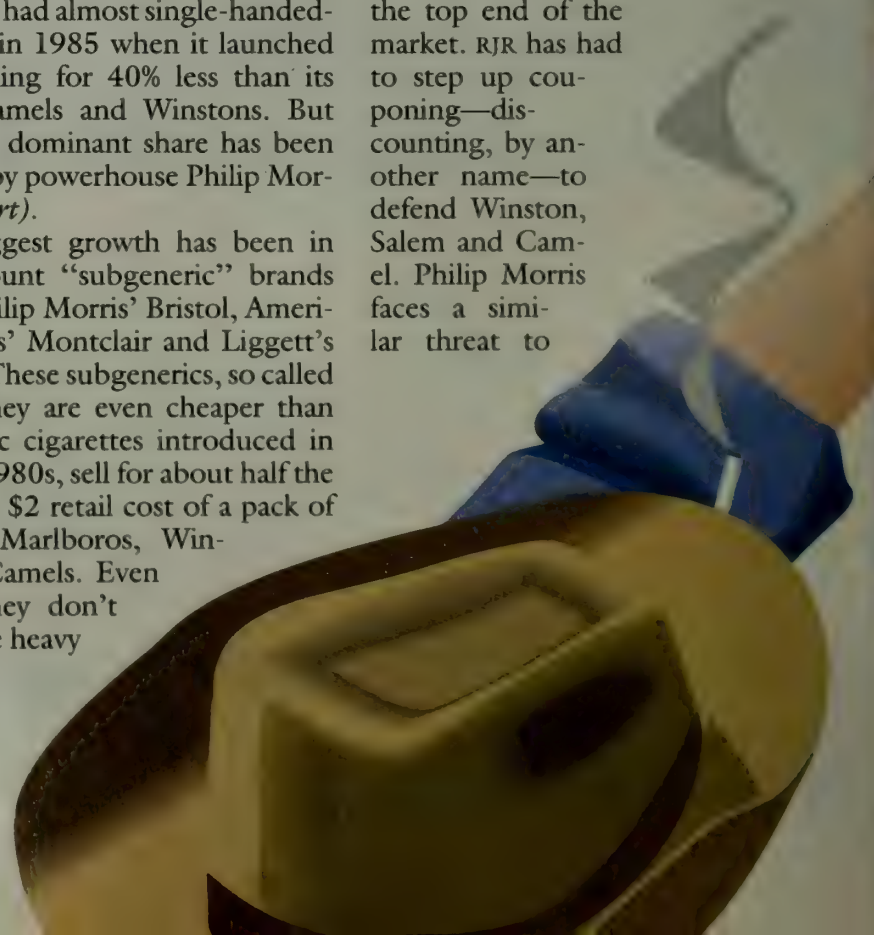
The biggest growth has been in deep-discount "subgeneric" brands such as Philip Morris' Bristol, American Brands' Montclair and Liggett's Pyramid. These subgenerics, so called because they are even cheaper than the generic cigarettes introduced in the early 1980s, sell for about half the more than $2 retail cost of a pack of full-price Marlboros, Winstons or Camels. Even though they don't require the heavy advertising support of the standard brands, these subgenerics are still less profitable than regular brands, yielding about two-thirds of the profit margins of full-price brands.

What is more worrisome, the discount brands have shattered old assumptions about brand loyalty and put a lot of market share up for grabs. "For 35 years it was hard to introduce a new brand," says American Brands' American Tobacco Chief Executive Charles Mullen. "Now we've had a window of opportunity, and we ain't through yet."

Despite leading the way previously with Doral, RJR refused to join in the new deep-discount fray in 1988 for fear of further cannibalizing its higher-priced Winston, Salem and Camel brands. But the low-price segment outgrew all expectations anyway, costing RJR several points of market share.

Last March RJR admitted its mistake and cut the price on its Magna and Sterling brands 30% to stem the erosion. "Total market share is important in getting shelf space," concedes Clifford Pennell, RJR's vice president for what it calls the "savings" brands. "We're going to defend our business in the low-priced end."

At the same time, disguised price-cutting has erupted in the top end of the market. RJR has had to step up couponing—discounting, by another name—to defend Winston, Salem and Camel. Philip Morris faces a similar threat to



Marlboro but has been better able to ride out the storm thanks to that brand's strong image and customer loyalty. Its unit sales for the first half of 1991 are down only about 4%, versus a nearly 8% drop for Winston, RJR's leader.

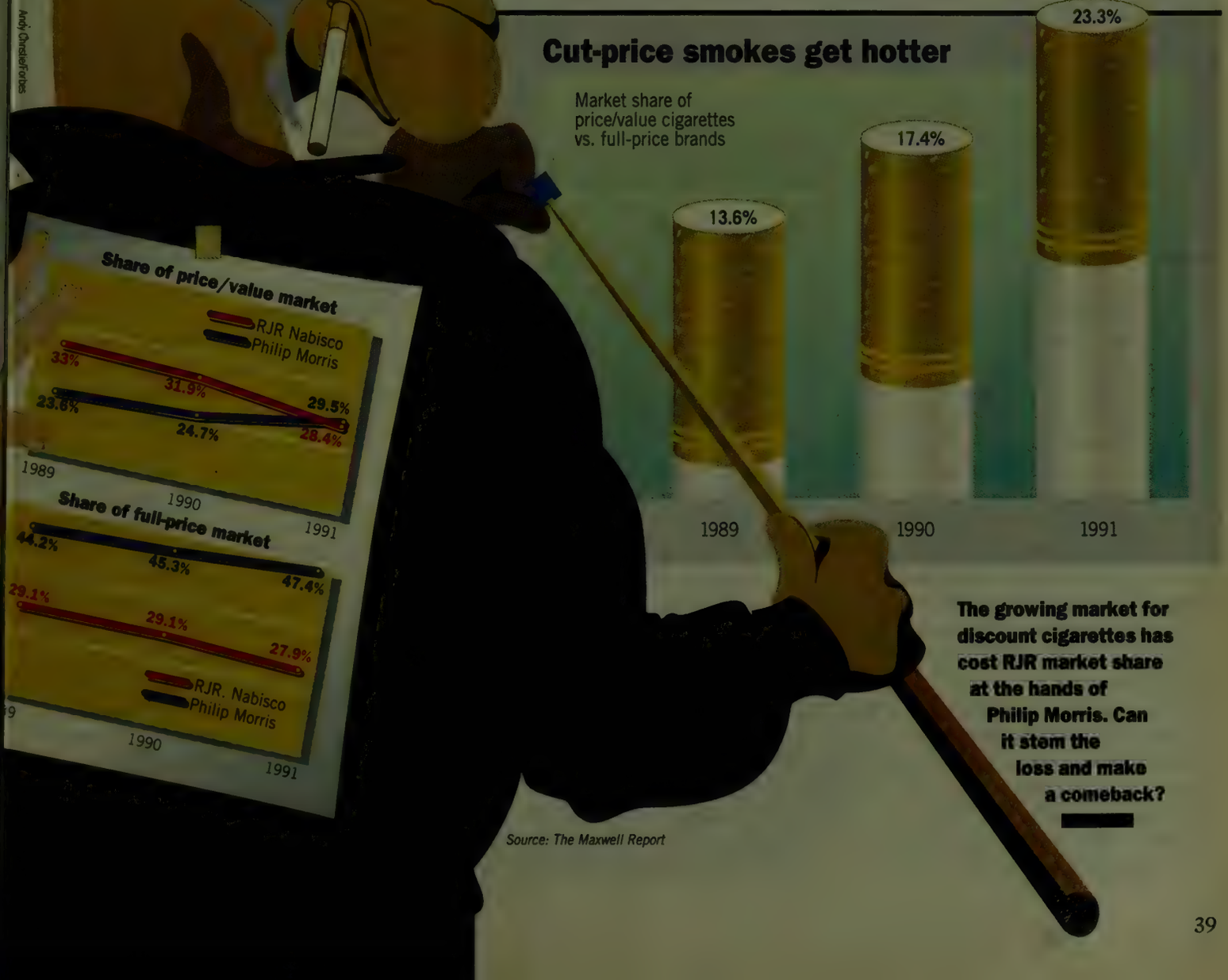
Between the new discount brands and the full-price couponing, industry sources say about 40% of the 460 billion cigarettes sold in the U.S. this year will have some kind of off-price deal. Even some discount brands have been couponing. All told, this price competition has partly offset the nominal double-digit price hikes in the past year.

The biggest price hikes have been in the deep-discount brands, which now sell at 40% below full price, rather than 60% below two years ago. But that escalation may have opened the door for yet a lower-priced tier of new brands. Liggett, which has been a low-price leader in the past, may again take the lead here. "We're looking at everything," says a cagey Gerald Reid, Liggett senior vice president of marketing.

Philip Morris, however, has shown that it is determined to keep the lead it has achieved in low-end cigarette market share, setting the stage for yet more tough competition. "It will get uglier and uglier," says Jack Trout, president of market strategists Trout & Ries: "The guy with the deep pockets will win."

But that implies every company will have to dig deeper into its pockets, benefiting consumers at the expense of profit margins. It also implies a battle royal in the marketplace. So far the big winners have been Philip Morris and American Brands. Their overall market shares have climbed impressively, thanks to new cut-price brands like Bristol and Bucks (from Philip Morris), and Montclair, Misty Slims and Bull Durham (from American Tobacco). Well-heeled Philip Morris is also taking full advantage of RJR's financial constraints and is stepping up the tempo of price changes and costly brand introductions.

RJR's Lou Gerstner has not been idle. His Joe Camel advertising campaign has attracted lots of attention—not all of it welcome, since critics claim it appeals to kids. But the attention hasn't translated into market share. A new advertising effort behind Winston's stay-fresh packaging has yet to catch fire. To compensate, RJR is couponing heavily. The KKR folks are great at financial engineering. Now let's see what kind of marketers they are. ■



The growing market for discount cigarettes has cost RJR market share at the hands of Philip Morris. Can it stem the loss and make a comeback? ■

Andy Christie/Forbes

Failing to realize that aging riders yearn for big bikes, motorcycle makers missed out in 1991.

The graying wild ones

By Richard L. Stern

Fredrich Cantor

High school teacher Michael Fitzgibbons on his new BMW

Aging baby boomers are buying big bikes to reclaim lost youth.

A YEAR AGO Stuart Kirk, 46, a Columbia University professor, and Michael Fitzgibbons, 46, a Rensselaer County, N.Y. high school teacher, began reminiscing about the motorcycles they had driven in their youth. The recollections were powerful. Two weeks later the friends walked into Berkshire Motor Works in Pittsfield, Mass., where each proceeded to write a $7,000-plus check to buy red BMW 750cc K75 sports bikes. Kirk explains the impulse this way: "We didn't want to end up 70 and regretting not having ridden again."

Apparently this phenomenon—aging baby boomers buying big motorcycles to reclaim lost youth—is occurring with increasing regularity. The motorcycle industry even has a name for these new customers: RUBs, for rich urban bikers.

Martha Liebmann, a 53-year-old Manhattan psychotherapist, is a RUB. "After my divorce I decided it was time to do a lot of the things I had been meaning to do," says Liebmann, who rides a 700cc Honda Nighthawk S. She also found a new husband—Richard Liebmann, who owns the dealership where she bought her bike.

Thanks in good part to RUBs, Harley Davidson Co. sold 2,000 more motorcycles in the U.S. last year than it did the year before—and would have sold a lot more but for a ten-week strike at its York, Pa. plant and problems on the plant's paint line. "We're selling lifestyle," says Harley Davidson spokesman Ken Schmidt, "not transportation."

In fact, after years of declining sales, 1991 is being viewed as a turnaround year for the motorcycle industry. That despite the fact that sales of street bikes—meaning everything that isn't an off-the-road motorcycle—for 1991 are expected to total 156,000, down by 7,000 from 1990, and far below the 1984 peak of 525,000.

How can you have rising demand and falling sales? It seems that going into 1991, the industry, given its past bad experiences, seriously underestimated demand and geared its production lines accordingly.

"When demand began picking up last spring, we simply didn't have enough motorcycles available," says Honda spokesman Gary Christopher. Agrees Kawasaki's marketing vice president, Robert Moffit: "Kawasaki lost 4% to 5% market share in 1991 because we underestimated the strong demand for big bikes."

Yamaha spokesman Jim Gentz: "Our dealers were madder than hell because we couldn't keep up."

One effect of the production shortfalls has been the rapid increase in prices of popular used bikes. A new Yamaha XV700 sold for about $3,600 in 1987. Because of a tight used market, it now sells for about $3,000. But it's getting hard to find used bikes in good condition. Motorcycle industry consultant Donald J. Brown says the average age of used bikes has increased from 4.5 years in 1984 to over 9 years today.

Encouraged by the number of older bikes on the road, by scant inventories and by the rise of the RUBs, most manufacturers say they are increasing production rates—mostly of the popular big touring bikes and snazzy sports bikes. The Japanese producers, in particular, would like a piece of Harley Davidson's huge market share—about 60% of the big-ticket, big-bike market (a big bike is anything powered by over 900cc engine displacement). Despite the stronger yen, Japanese motorcycles remain mostly cheaper than Harleys, which average well over $10,000.

But the Japanese won't find it easy to woo away Harley fans. "Harleys make the same kind of statement as wearing a Rolex watch or driving a classic wing-tailed Cadillac," says consultant Donald Brown. In a business based on nostalgia and image, Harley has advantages its Japanese competitors can't hope to match. ■

Suddenly a license to run a taxi dispatch service is a ticket to get into the cellular business. Motorola owns the most such licenses but doesn't like to talk about it. Here's why.

The taxicab as phone company

By Gary Slutsker

AS THIS ISSUE of FORBES went to press, a little company called Fleet Call Inc., based in Rutherford, N.J., pulled its plans to go public at a price that would have valued the $54 million (fiscal 1991 revenues) company at over $1 billion. But while the underwriters seem to have overvalued the company in a jittery market, Fleet Call is in a business with attractive prospects.

Fleet Call owns rights to broadcast voice and data over radio frequencies reserved for taxicab dispatchers in New York, Chicago, Los Angeles, San Francisco, Dallas and Houston (FORBES, *Aug. 20, 1990*). As such, it is a potential competitor to the country's high-flying cellular telephone operators—McCaw Cellular, Centel, GTE, plus most of the Bell operating companies. Lining up behind Fleet Call with their eyes on the public equity trough are other dispatchers, including privately held Dispatch Communications in Bethesda, Md. and publicly traded American Mobile Systems, of Woodland Hills, Calif.

If Fleet Call is worth even close to $1 billion, what is Motorola Corp. worth? Why Motorola? Two reasons. One, Motorola is the largest supplier of dispatch radio telephone equipment. The company just introduced new digital technology that makes calls on dispatch frequencies sound at least as clear as cellular calls.

But potentially much more important is this: Motorola is also the nation's single largest owner and operator of these hard-to-come-by taxi dispatcher frequencies, the so-called shared mobile radio licenses issued by the Federal Communications Commission. Motorola, however, isn't saying how much spectrum it has.

What are Motorola's channels worth? Motorola refuses to discuss this issue, too. But Andrew Kessler, a securities analyst at the Wall Street house of Morgan Stanley & Co., believes the frequencies could be worth on the order of $2 billion or more, or $15 to $20 per Motorola share. Motorola's current price: 59⅜ a share.

Motorola says it plans to install the new digital technology it developed for Fleet Call—called the Motorola Integrated Radio System (MIRS)—in 50 of its, Motorola's, largest dispatch markets. Motorola also has a joint venture with IBM, called Ardis, to transmit data over a nationwide network of mobile radio frequencies.

Why is Motorola reluctant to discuss its dispatch holdings and plans? Probably because the company is playing both sides of the mobile communications fence. As Motorola helps develop digital phone service using the taxi dispatch frequencies, it will become a direct competitor to customers of its highly profitable cellular telephone equipment division.

In 1990 Motorola's cellular operation contributed 23% of its $11 billion in sales and 37% of its $500 million in profits. Motorola won't give the size of its dispatch equipment business.

Granted, future sales of fancy new digital transmitters and phones may well boost the importance of the dispatch business. Motorola is, for example, getting ready to sell Fleet Call a $260 million package of equipment. But Motorola is financing 100% of the purchase price. It will probably also end up financing other dispatch companies. Small wonder Motorola doesn't want to upset its paying cellular telephone customers.

Why was Fleet Call forced to postpone its public offering? Capitalized at $1 billion, its potential customers—or "pops" in industry lingo—would be valued at $16 each. That is far below the $200 or so at which cellular companies' pops trade, but cellular operators have more spectrum and will have more capacity in their channels than even Fleet Call's digital service once they upgrade to digital. Moreover, offering phone service will require the dispatchers to invest hundreds of millions of dollars in equipment and will take almost two years to implement. Motorola says its MIRS technology won't be ready to install before 1993.

Still, if you're of a mind to gamble that the taxicab dispatchers will become potent competitors to the cellular operators, why not limit your risk by buying the biggest and most financially sound dispatcher of them all—Motorola?

Gary Baseman

Does government spending ever shrink—or is its steady rise inevitable? For an answer let's visit Victorian Britain.

It can be done

By Peter Brimelow

READER REACTION to our recent *(Dec. 9, 1991)* grand panoramic 1900-92 chart of federal government spending versus GNP tended to come in two distinct waves.

In the first wave: an innocent surprise at the revelation that, by historical standards, federal spending is now so high.

Could it be? That 1992 is expected to set a new peacetime record of 24.9%, exceeding the previous peak in the postrecession year of 1983?

The folks thus surprised must have believed all the propaganda about R. Reagan, mad budget axman.

In the second wave of reader reaction, a few seconds later: a world-weary shrug—the increase in government expenditure is inevitable. And above all, it can never be reversed.

Is it true that government spending goes only one way—up? Of course, some limited instances of peacetime reversal are visible on our chart: from the end of World War I in 1918 right through the Roaring Twenties, a fabled era of prosperity. In a growing economy, government's relative share can fall, although its absolute spending remains constant. Conversely, when the economy shrinks in a recession, government's relative share increases—even before the slump triggers automatic unemployment-related transfer payments. Hence the record runup of the early Reagan years.

Still, it is true that the government share of spending in almost every major industrial economy lurched upward by some 10 to 15 percentage points in the ten years or so after 1970. And a decisive reversal has nowhere occurred.

In Britain Margaret Thatcher succeeded in getting government spending down from 47.5% of GNP in 1981 to 40.9% in 1989. However, that's from a recession to a recovery.

"But it's Britain that provides the textbook example of a sustained reduction of government share," says Alvin Rabushka of Stanford University's Hoover Institution think tank. Rabushka has actually written the book *(From Adam Smith to the Wealth of America,* Transaction Books*)*, which dwells at some length on the dramatic decline of the British government's share of the economy throughout virtually the whole of the 19th century *(see chart, opposite)*. Recently, he spoke to FORBES about the lessons of the British experience.

In 1811 British central government spending consumed more than 27% of GNP. Local government spending put the total over 30%. This is roughly in the same range as in the U.S. today: Combined federal, state and local government spending hovered just above 30% throughout nearly all of the Seventies, before climbing to a recent 37%.

By 1891 British central government spending had been driven down to 7.3%.

For those who think that all this must have been done on the backs of the poor, there is this to contend with: This was a century of unparalleled economic progress. British gross national income grew fivefold (more in real terms; prices were actually falling). Working-class living standards doubled in the second half of the century alone.

Arguably, the British in the early 19th century were spending their 27% of GNP on a good cause: fighting the French, in the shape of Napoleon's military dictatorship, and burning down Washington, D.C. during the War of 1812. By contrast, the U.S. has contrived to achieve its current higher expenditure level in a period of no external threat, when military spending has fallen about as low as it has been since World War II.

But cutting military outlays was only one part of the British rollback of government. A second major issue was the national debt. This was a serious problem. The Napoleonic Wars were financed by borrowing. In 1811, debt charges exceeded 8% of GNP, nearly a third of central government spending, and they were to rise above 10%. By contrast, interest on the U.S. national debt is currently a mere 3.4% of GNP, slightly more than a seventh of federal expenditures.

The British pared down their national debt throughout the 19th century. And they were able to reduce their debt service relatively by growing their economy faster—a striking achievement, since deflation was tending to exacerbate the burden in real terms.

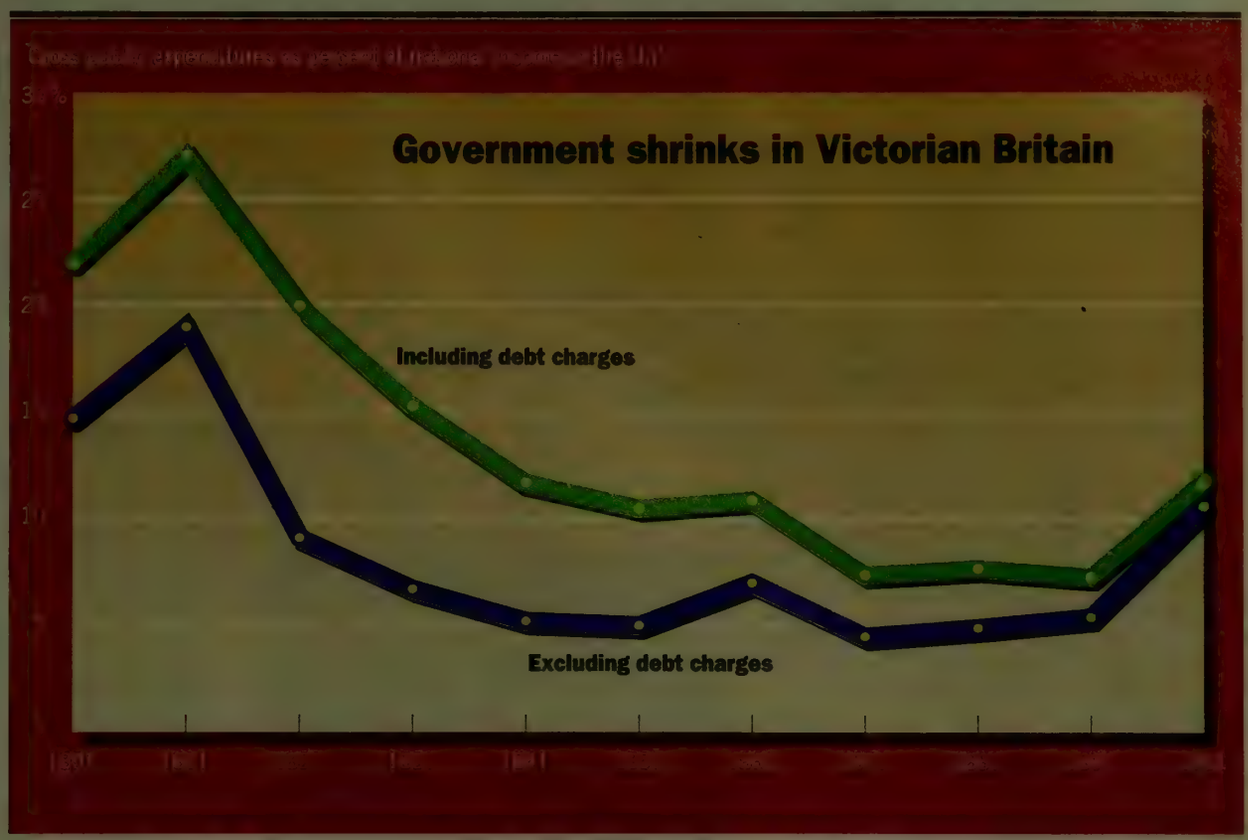
The third major component in early 19th-century British government spending: poor relief. Uncannily, Britain's landed aristocrats had gotten

20 %
U.S. federal spending as percent of GNP
15
10
5

1900 1910 1920 1930 1940

Is the current rise in peacetime U.S. federal spending (below) inevitable? There's one outstanding counterexample: British central government spending (right) fell through most of the 19th century, a period of unparalleled prosperity.

A Christie/Forbes



themselves into exactly the same mess as today's Washington welfare politicos. The 1601 Poor Law had been transformed, partly through court decisions, into a system of so-called "outdoor relief." Low wages were supplemented by cash payments that were adjusted for inflation and for offspring, legitimate or otherwise. The result: an expenditure explosion—the "poor rate" levy went up ten times, to more than 2% of GNP by 1811—and a welfare-dependency problem, or what the literature of the day described as "dissolute, depraved and promiscuous paupers."

In 1834 the British reformed their welfare system radically and ruthlessly. Relief could now be obtained only inside a "workhouse." And once there, recipients were subject to strict discipline and conditions that were deliberately less appealing than those available to the poorest-paid laborer.

The idea was to alter the incentives (and disincentives) facing the poor. And, less explicitly, that only economic growth, not subsidization, could permanently improve their condition.

Whatever the merits of this idea, it did have one immediate and highly practical consequence: Poor rate expenditures fell by nearly a third between 1831 and 1841 in nominal terms, although Britain's population was growing rapidly at the time.

"Compassion was not good politics," says Rabushka. "They were very clear in their defense of property rights. And taxation was wicked, evil, the crime of crimes."

These Victorian values persisted right through the century, despite Britain's steady transformation into a full democracy. These values were epitomized by William E. Gladstone, who was several times Chancellor of the Exchequer and Prime Minister after 1852. Rabushka describes Gladstone as "the finest figure of public finance the world has ever known."

Gladstone believed, in his famous phrase, that money should be allowed "to fructify in the pockets of the people." He cut public expenditure persistently—nearly 10% between 1861 and 1865, for example. Even more important, he also refused to spend the higher tax receipts automatically generated by the growing economy on any new programs, using them instead to cut taxes further. This restraint, which Rabushka calls "incredible," was the final element in Britain's declining government share of GNP.

All of this took place in a context of massive economic liberalization. Early 19th-century Britain was a highly regulated society, and included a tangle of price controls and high tariffs. Some of these regulations had provoked the American colonies to revolt. Others kept food prices high, hurting the working class.

Ironically, in those days deregulation was a progressive cause—and Gladstone, free trader and anti-imperialist isolationist, was the leader of the Liberals, the left side of Britain's two-party system.

And it all took time. "There would be ten years of reform, and ten years of reaction," notes Rabushka.

Which comforts him when he surveys the contemporary U.S. political scene. "You never know who might come out of the woodwork at the end of the century," he says. ■

1950 1960 1970 1980 1990 '92

Emilio Azcarraga, the man behind Mexico's Televisa, didn't earn his nickname by accident.

El Tigre pounces again

By Joel Millman

TALK ABOUT a turnaround. Five years ago you couldn't give Mexican companies away. Today the gringos are lining up for the privilege of investing there. Mexico's Bolsa now trades at 12 times earnings and is valued at $93 billion, nearly 17 times its value at the end of 1986.

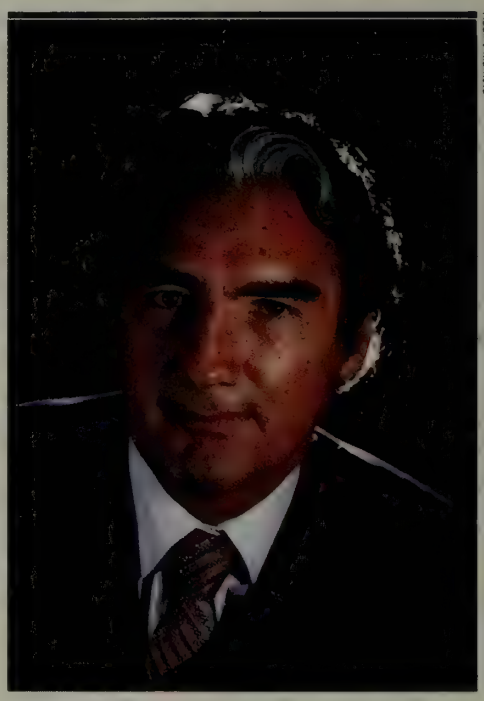
The latest Mexican businessman to take advantage of this new wave of optimism in his country's future is Emilio Azcarraga. Last month Azcarraga offered 22%, or 69 million shares, of his government-sanctioned television network monopoly Televisa S.A. at a target price of up to $11.50 a share. The price valued his $760 million (estimated 1991 revenues) company—which also owns a cable network, ten radio stations, Mexico City's biggest bullring, a soccer stadium and two soccer teams—at nearly 40 times predicted 1991 earnings.

But no one seemed to mind. The sale took place on Dec. 10 and was so oversubscribed that the price was bumped to $12.50 a share, valuing the company at $3.9 billion.

Who bought? Foreigners, mostly. Some 9 million shares were sold to public investors on the Mexican Bolsa, and another 60 million in private placements in the U.S., Japan and Europe.

In the opinion of Hermann von Bertrab, managing director of Arka Securities Inc. in San Diego, Televisa "is a natural conduit for the additional advertising Mexico is going to need."

Perhaps. But Azcarraga didn't come by his nickname—*El Tigre*—by accident. A stripe of white hair slices his jet-black pompadour. More to the point, "The Tiger" is known to pounce on opportunities with near-perfect timing.



Nadine Markova

Televisa's Emilio Azcarraga

The Tiger strikes with perfect timing. His moneylosing TV monopoly went public at 5 times revenues, nearly 40 times "earnings."

Example: In 1987, after years of wrangling with the Federal Communications Commission about Televisa's alleged control of U.S. television properties, Azcarraga sold five UHF stations in the U.S., and, later, the Spanish International Network, SIN, to Hallmark Cards Inc. for some $600 million—a price substantially more than the properties would now command. *El Tigre* added to the pressure on Hallmark by diversifying his Galavision, a cable programming service, into an over-the-air network serving Spanish-language stations across the Southwest.

Selling a minority stake in Televisa at a time when interest in Mexico is booming looks like another case of brilliant pouncing. Thanks in large part to startup and closedown losses on the *National*, the U.S. daily sports paper Azcarraga shuttered last June, Televisa lost a total of $205 million in 1988, 1989 and 1990. (About half the money Azcarraga raised in December will be used to buy the stakes of his former partners in Televisa, Romulo O'Farrill and Miguel Alemán, who reportedly feuded with Azcarraga over the failure of the *National*. The rest of the money will pay off some of Televisa's short- and long-term debt of $740 million.)

In his road-show appearances, Azcarraga reckoned that Televisa would make an aftertax profit of about $100 million in 1991, or 32 cents a share, and claimed that earnings would double in 1992. But, warns Mickey Schleien of D.A. Campbell in Santa Monica, Calif., a brokerage specializing in Latin American stocks: "When you back out the inflationary accounting for 1991, the company is still losing money."

More fundamentally, the same liberalizing forces that have generated so much optimism about Mexico's prospects may make it more difficult for Televisa to make money in the years ahead. The cozy relationship forged between the Azcarragas and the Mexican government—which began in Emilio's father's day—may be coming to an end. The Salinas government is about to breach Televisa's monopoly by privatizing its 78 TV channels, bringing new competitors to *El Tigre*'s domain.

On the horizon, a U.S.-Mexico free-trade pact will encourage television entrepreneurs like Ted Turner to beam more signals into the Mexican market. Azcarraga would love to buy broadcasting properties in the U.S. But if he does that, how will he develop the Mexican media assets that U.S. and European investors were so eager to buy into?

That Mexico's economic prospects are the best they've been in decades is beyond doubt. But whether Televisa is worth almost 40 times earnings and 5 times revenues is very much open to question.

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CREATING THE RIGHT CHEMISTRY.

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To stay in business, the Midwest Stock Exchange has gone in for electronic trading, bypassing the specialists.

If you can't beat 'em . . .

By Gary Slutsker

YOU BUY 1,000 shares of General Motors from a full-service stockbroker whose firm is a member of the New York Stock Exchange. Your commission will be around $500. If the broker sends your order to the Big Board to be filled, part of this commission, $26.50, or 2.65 cents a share, goes to the exchange itself.

But the New York Stock Exchange no longer has a monopoly on trading the stocks listed on it. The broker could equally well send your order to a regional stock exchange. Or he could send it to one of the new electronic trading systems operated by firms like Jefferies & Co. or Bernard L. Madoff Investment Securities (FORBES, *July 10, 1989*).

Bernie Madoff has become by far the biggest of these new age traders through a simple practice: He pays the brokers a penny a share to get their market orders. This saves that $26.50 fee per 1,000 shares to the NYSE, and puts a little extra money in the brokers' pockets.

But one man's saving is another man's loss, and the diversion of business is hurting the NYSE and other exchanges. As of September, Madoff alone handled about 10% of all trades in NYSE-listed stocks. Since 1980 the Big Board's share of trades in NYSE-listed stocks has dropped from 85% to 68%—a reason the price of a seat on the exchange has plunged from a precrash high of $1.15 million in 1987 to a recent $431,000.

How can Madoff afford to pay for the right to execute a trade? Simple. He lives off trading profits and the spread, the normal eighth-of-a-point difference between bid and asked.

Intelligent people can disagree as to whether this is good or bad for investors. Madoff and other electronic traders do cut transaction costs dramatically. But some critics argue they may reduce liquidity in markets. The Securities & Exchange Commission is about to begin a yearlong study that will generate some answers.

This much is clear: The established stock exchanges can ignore the Madoffs of the world only at their peril.

Charles Doherty isn't ignoring them. Doherty, 58, is president of Chicago's Midwest Stock Exchange, the country's largest regional exchange. The Midwest's share of trades in NYSE-listed stocks grew from just under 4% in 1980 to a peak of 11% in 1989—but has since dropped back to 8%, thanks to competition from off-exchange traders like Madoff.

To save his exchange, Doherty is converting the Midwest into a high-tech exchange, rivaling Madoff's. In 1991 he spent $13 million to develop fancy computer systems to route orders directly from its customers and execute those orders automatically.

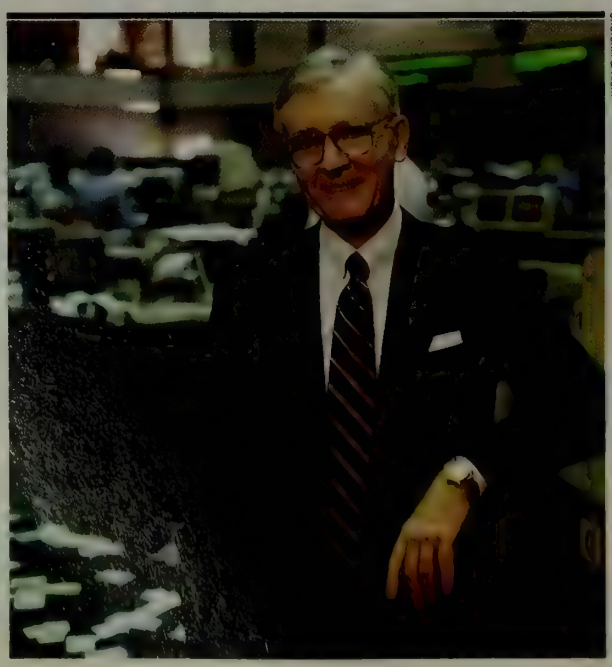
One of Doherty's secret weapons is MAX, a proprietary software program that automatically fills certain orders at the best price quoted on the national Intermarket Trading System screen, bypassing specialists much of the time. That means that if your broker sends an order to the Midwest to sell 1,000 shares of IBM at 90, but the NYSE is advertising a bid of 90⅛, MAX will automatically execute the trade on the floor of the Midwest Exchange at the New York price.

Doherty has also told his specialists: If getting the business means paying the brokers for their orders as Madoff does, pay them.

With all this the Midwest Exchange has managed to hold on to its profitable block-trading business, which still requires the intervention of skilled human specialists as well as computers and accounts for about a third of the exchange's revenues. But this computerization squeezes the profits. Doherty's motto: Better squeezed than dead.

To meet the challenge of electronic traders, will the New York Stock Exchange adopt Chuck Doherty's aggressive defensiveness? Not if it means going to electronic trading. "The best deal in town is here," says NYSE Executive Vice President Lewis Horowitz. "It may not be the cheapest, but people know it's the best."

Gary Spector



Churchill & Klehr

ABOVE:
Electronic trader Bernie Madoff
RIGHT:
The Midwest's Chuck Doherty
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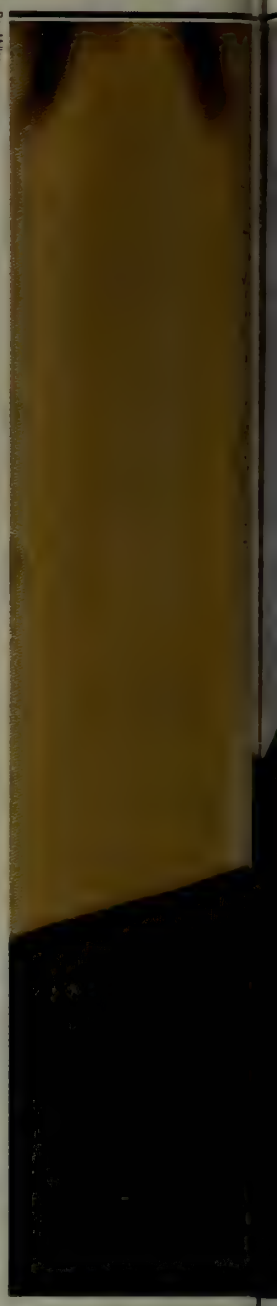
As a "value" investor, Michael Steinberg must search far afield with the market as high as it is today. But he does still manage to find the value he seeks.

Waiting for the fall

By Tatiana Pouschine



Rex Miller

Michael Steinberg, money manager
He likes bargains and has been able to find them, even in the bull market.

SO-CALLED value investors are like short-sellers: Both prefer to do their hunting in bear markets. Both have been hurting of late.

A value investor is a chap who tries to find stocks that are selling for less than what the underlying business is worth. Typically, but not always, these stocks trade at low ratios to their future earnings. Michael Steinberg is of the value school, but with a different spin. Steinberg, 49, founded Steinberg Asset Management in New York in 1982 after 22 years in the business, starting as an analyst at Loeb Rhodes. He now runs some $300 million in client money, scorning such simplistic yardsticks as book value or past earnings.

His spin on the value approach is this: He looks for companies selling at a 50% discount to what he calls their "transaction value." This he defines as the price a reasonable businessman would pay if he understood the business properly. To determine transaction value, Steinberg, a studious, cautious individual, follows a kind of updated Ben Graham approach. He focuses on a company's earnings potential and free cash flow after necessary capital expenditures and debt repayments. He prefers that his value stocks have a potential kicker—an undervalued asset or promising new product.

These are good commonsense criteria, but common sense doesn't always rule in the stock market. CDA Investment Technologies, which estimates money manager performance by looking at stock selections (but ignores timing decisions), ranks Steinberg 279 out of 289 money managers over the five years through September. This has been a market for growth managers, and Steinberg has been left behind. "It's been a very difficult period for us," he admits, revealing that in the first nine months of 1991 his money earned 17% on average, versus the S&P 500's 20%.

Not surprisingly, some of Steinberg's clients are deserting him, and his assets under management have dropped 12% from their peak in 1989. Those deserters are probably making a big mistake. Why? Investment styles go in cycles, and if growth has done well in recent years, then growth is likely to do worse than value in the future. But then, pension fund sponsors are notorious for their habit of investing with a rearview mirror.

Over the long pull, Steinberg's approach has proved itself. For the ten years ended 1990, Steinberg calculates, his accounts have averaged a 19% compound annual return, compared with the S&P 500's 14%. That includes two years between 1980 and 1982 before he went on his own, when he was managing many of the same accounts.

With the market, as measured by Standard & Poor's, up more than 70% since the 1987 crash, value stocks are hard to find. So many of Steinberg's accounts have more than 25% of their assets in cash, which, of course, drags down performance in a bull market. In the early 1980s he was always just about fully invested. When stock prices drop and values abound again, he will more than make up for his temporary lag.

But Steinberg is not so bearish that he has retreated to the sidelines. He is finding his kind of values. He is putting his equity money into stocks that do not require a strong economy to do well. In a slow-growth environment, he points out, weak companies go out of business while the strong, low-cost, well-financed ones gain market share. Steinberg is searching both abroad and in the U.S. for such well-positioned companies.

One place he's finding them is Norway. Since July the Norwegian market has fallen over 35%, primarily because two of the three largest banks were heading toward insolvency before the government intervened to prop them up. Steinberg thinks two Norwegian stocks, Unitor and Helikopter Service, will rebound nicely.

With $225 million in sales, Unitor is the world's largest seller of goods

and services used in maintaining or repairing ships—things like gases and cylinders used in welding, refrigerants and special anticorrosive coatings. The company has computerized credit profiles on 16,000 of the 22,000 ships that cruise the seas, keeping credit losses below 1%.

With so little new construction and aging fleets, demand for Unitor's products should stay buoyant. Unitor is the low-cost producer, offering standardized products in a largely mom-and-pop industry.

A promising Unitor product is a line of oil bags that ships could use to help contain oil spills à la *Valdez*. A related line of water bags would enable ships to carry potable water from places like southern Europe to water-short places like the Middle East, doing so more economically than desalinization plants or tankers carrying water could.

Unitor, trading on the Norwegian and London exchanges, recently sold at roughly $12 a share, or 12 times this year's estimated earnings. That's the kind of value Steinberg combs the world looking for: well below transaction-value price with good growth potential.

Norway's Helikopter Service, based in Oslo, generates just under $200 million a year ferrying people from the mainland to offshore platforms in the North Sea. Oil companies, Steinberg says, are spending over $30 billion developing the Norwegian section of the North Sea and have allocated $40 billion and $50 billion for the next two years.

Helikopter Service is value by Steinberg's standards. Helikopter Service recently traded at roughly $8 a share, against this year's estimated earnings of $1.40, and yields about 4½%. Plus, there is a major undervalued asset. Helikopter Service owns an office building in downtown Oslo, potentially worth $70 million. Sale of the property, given the company's strong cash flow, could mean a cash distribution of around $3 a share.

In the U.S., Steinberg likes the Enquirer/Star Group. The principal shareholders, Macfadden Holdings and Boston Ventures investment groups, decided to take the supermarket tabloid properties public in July at $14 a share. Two-headed babies and ghosts of Elvis Presley? Don't sneer. The *Enquirer* and *Star* together sell over 6.5 million copies, the second- and third-largest single circulation of any weekly after *TV Guide*.

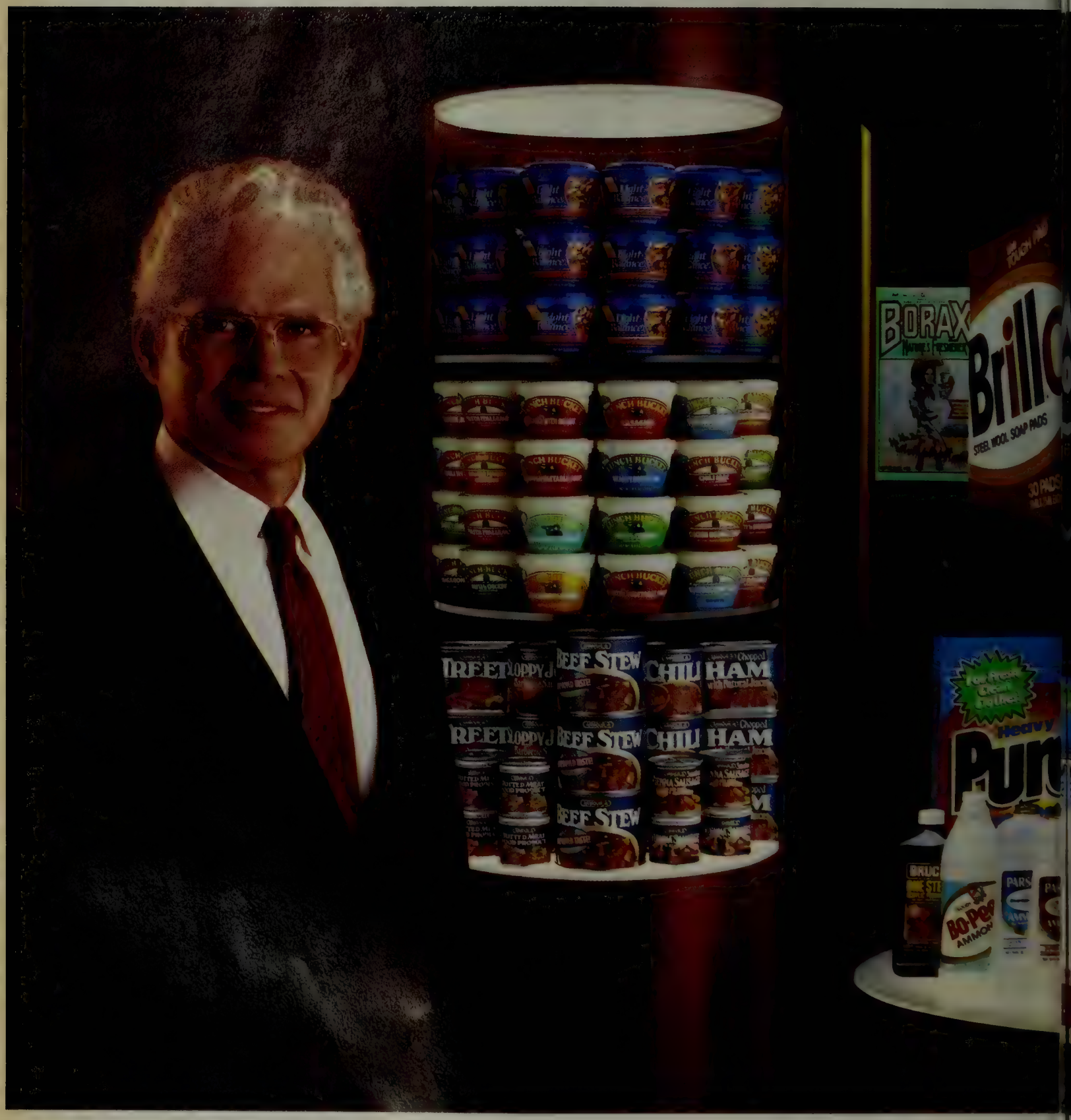
The investment groups bought the *Enquirer* from the estate of the late Generoso Pope, an eccentric owner who spent company money lavishly. Assuming modest reductions in costs—say, $10 million a year in a business that generates $270 million—and further assuming modest increases in newsstand prices, Steinberg expects earnings to grow to over $2 a share in the next three to four years, from 1991's 13-cents-a-share loss. He calculates that operating cash flow will grow from its current $150 million to in excess of $200 million in that same period. Putting a price of, say, ten times cash flow—a reasonable multiple by today's media standards—on that cash flow would make all the tabs worth $2 billion—$50 a share, versus the current $18.

And here's a Steinberg favorite: How much would you pay, he asks, for a business that's not labor intensive, doesn't require much capital, has no inventory problems, no environmental problems, isn't subject to foreign competition, generates lots of excess cash and will earn 20% a year on its equity?

The stock is MCI. Yet, marvels Steinberg, the stock recently traded at nearly 28, only 13 times this year's estimated earnings; by comparison, AT&T recently traded at 36¼, or 45 times depressed earnings.

Steinberg's thesis is that MCI is no

"Either you shape the future, or the future shapes you."



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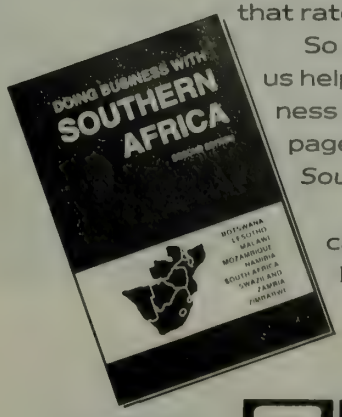

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longer interested in pell-mell growth and market share. That means it is no longer forced to spend huge amounts on new plants and equipment. By 1995, Steinberg calculates, MCI could be generating over $4 a share in cash. It could use some of the cash that it is building up to buy back shares, perhaps starting in the next 18 months.

Meanwhile, the telephone business should continue to grow more than two times GNP, as it has for many years past. The trend toward home offices may mean lots of new business for MCI. People require more telephone

Michael Steinberg figures that in a slow-growth environment weak companies go out of business while the strong gain market share.

lines as they use their phones more and add fax machines and computers.

Steinberg also likes BHC Communications, a spinoff from the Time Warner deal. The stock of this holding company recently traded at $52 a share, though Steinberg calculates that it is worth over $70 a share right now. Here's how he figures it: Each share has $30 of cash behind it. BHC's holding of Time Warner series C and D preferred shares adds $25 a share, and its 51% stake in United Television, another $12. Two TV stations the company already owns are worth over $300 million, or $11 a share.

Why is the stock selling at a discount? Because of Herb Siegel, who controls BHC. He's well known as a savvy businessman, but the market isn't yet convinced he can operate media properties. Steinberg points out, however, that these are times when liquidity pays: "You have someone [Siegel] with capital in a capital-shy world."

Steinberg clearly believes in all these stocks, even though he can't enthuse over the market as a whole. But the market won't be trading near 3000 forever. When the market multiples fall, Steinberg looks forward to finding more ways of putting cash to work. "I think the next five years are going to be extremely good to us," Steinberg says.

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The Great Surprise.

Acxiom's Charles Morgan runs a highly specialized data processing outfit and races cars in his spare time.

Keep your eye on the track

By Fleming Meeks

"IF YOU GET into a race car and you're not intent on the objective at hand, your chances of doing well are slim to none," says Charles Morgan Jr., chief executive of Acxiom Corp. "I think the same thing is true in business."

Morgan, 48, speaks from direct knowledge on both scores. Last March he and a co-driver won the 12-hour Nissan Camel Grand Prix in his class, collecting an $18,000 purse. Winning speed: an average 86.9mph, sustained over 12 grueling hours. It was his second such win at Florida's Sebring International Raceway in as many years.

If Morgan's business pace is less sustained, it is just as grueling. As boss of Conway, Ark.-headquartered Acxiom, he has learned that keeping attention tightly focused is as important in business as on the track. Acxiom performs huge data processing jobs for direct marketers—a highly specialized market upon which the company has bet its entire future.

In fiscal 1991 (ended Mar. 31) Acxiom earned $3.8 million on revenues of $98 million. But revenues for the current fiscal year will slip to $93 million or less; earnings, $5.7 million two years ago, could sink for the second straight year, to as low as $2 million, just 45 cents a share this year. The bad news knocked Acxiom's 4.7 million o-t-c-traded shares from a high of 22 in April to as low as 10 before they rebounded to 15½. As owner of 20% of the stock, Morgan took a direct hit.

Part of Acxiom's slowdown can be attributed to poor track conditions—the weak economy. But Morgan admits that the company took its eye off the road and relaxed at the steering wheel in the late Eighties, and is paying for it now. "I provided lousy vision," he says, obviously embarrassed by his missteps.

Charles Morgan Jr., Acxiom Corp. chief executive, on the track and on the job **"You can't make too many mistakes and still finish the race."**

Peter Poulides

About 20% of Acxiom's business comes from creating mailing lists for people who market credit cards. Using complex mathematical formulas, Acxiom's computers cull prospects from multiple lists of up to 500 million names. Citicorp, the country's largest credit card marketer, spent over $7 million with Acxiom last year for such mailing list work.

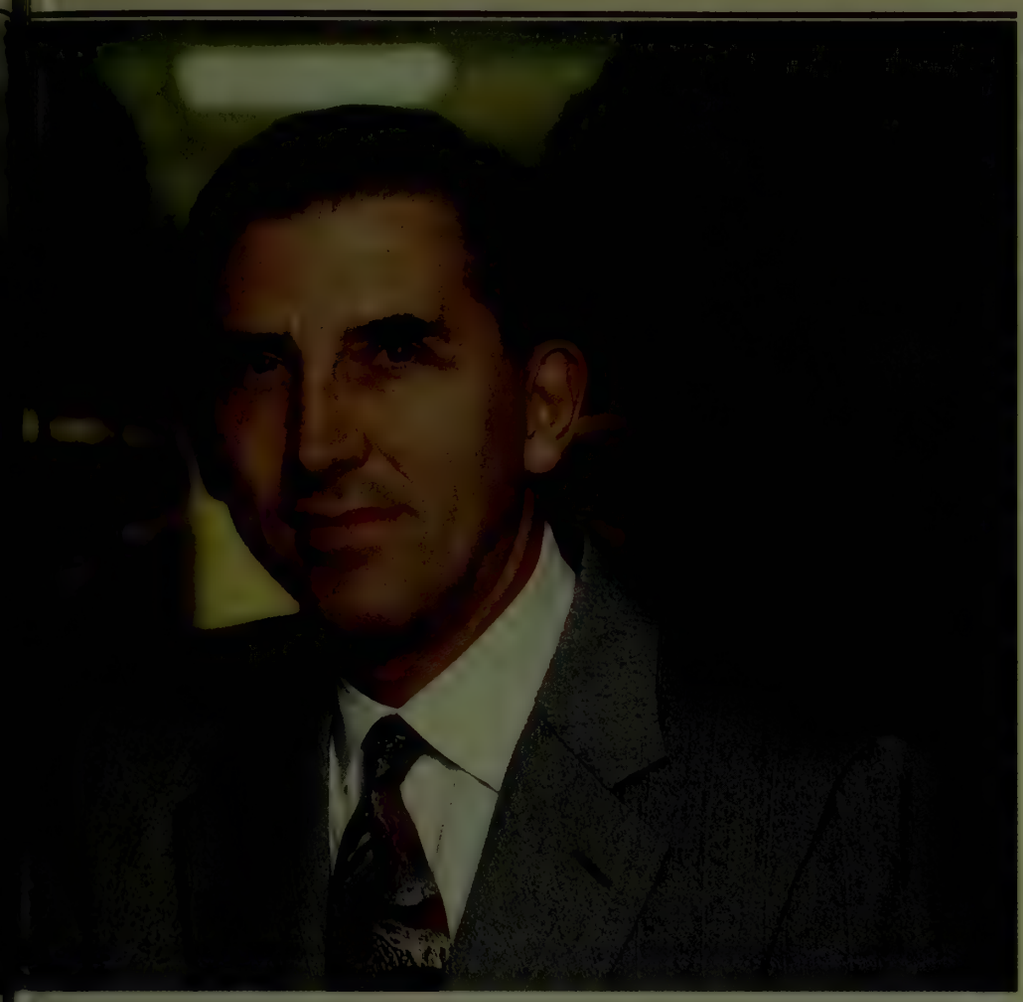
Acxiom also creates marketing databases for big companies like AT&T and National Liberty Life Insurance. For the past three years AT&T has regularly brought in Acxiom to enhance its 90 million past and present customer files. Acxiom combines the AT&T data with a database of demographic and lifestyle information, which it co-owns with Advo-System. This proprietary database includes data compiled from product warranty cards and household survey data.

Acxiom then builds statistical models to determine things like which long distance customers are most likely to jump to a competitor and which former customers can most likely be lured back to AT&T. The results are used to develop direct mail and telemarketing campaigns as well as to guide the company's overall long distance marketing strategy.

Acxiom also used this information and more to handle all the mailing list work for the rollout of AT&T's highly successful Universal Card.

National Liberty regularly uses Acxiom's computing muscle to analyze its files on 18 million life and health insurance customers. No small task. Since each file contains as many as 600 data fields, that means manipulating 10 billion discrete pieces of information. The results are used to help the company analyze trends and to develop new products.

Running these computing jobs requires a lot of raw processing power. Acxiom strives to acquire this computing power as cheaply as possible. It could spend $22 million for the latest offering from IBM—the ES/9000, which performs an estimated 225 million instructions per second (MIPS). But instead, Acxiom has devised soft-



ware that turns the firm's 16 mainframes—all bought secondhand, some for as little as $10,000—into something akin to a single, massive, parallel-processing system with 280 MIPS' worth of power.

Acxiom got its start in 1969 doing data processing for local companies and direct-mail fundraising for the Democratic National Committee. Founder and Conway native Charles Ward also ran Ward Industries, a big manufacturer of school buses. In the mid-Seventies the school bus company was struggling and Ward needed cash. He sold the data processing outfit to its managers, chiefly Charles Morgan, a former IBM systems engineer who had joined the company in 1972. The purchase price was $50,000, and Morgan got half the company. Revenues that year: $400,000.

When he compares business with car racing, Morgan is talking about his own insistence on keeping Acxiom focused so as not to become diverted or spread too thin. A lanky Arkansan with an engineering degree from the University of Arkansas, Morgan decided to focus exclusively on the direct marketing industry. To generate business, he began courting mailing list brokers, touting the company's data processing prowess. By 1983 revenues of what was then known as CCX Network had grown to $7.5 million. Little Rock-based Stephens Inc. sold 20% of the company to the public, at a split-adjusted price of $8, raising $4.3 million.

Then Morgan took his eyes off the track to gaze at the scenery. Using stock, and cash from a $6.5 million secondary offering, he made acquisitions in related but separate fields. He scooped up a mailing house, a software firm specializing in catalogers and two British data processing firms specializing in marketing. The idea was to turn the company into a one-stop shop for direct marketers.

It didn't work. Not only did some of the acquisitions not work out, but they also diverted Morgan's attention from his core business. The mail shop—at best a low-margin business—has yet to produce the expected synergy with the data processing business. Citicorp, for example, still uses a competitor to handle its mailings. American Express gives its mailing business to Acxiom but runs its own elaborate marketing databases. The catalog fulfillment business was discontinued last year after Acxiom sank over $6 million into buildings and equipment. And the British operations will lose several million dollars in fiscal 1992.

Meanwhile, growth in the core business has stalled in the recession. For example, Chase Manhattan Bank, which paid Acxiom about $6 million for credit card work in 1990, cut its business more than 50% in 1991.

Morgan quickly refocused his attention. In early 1991 he cut Acxiom's work force by 7% and pared back the executive staff from 34 to 24, taking a 46% salary cut himself, to $209,000, and trimming his racing schedule from 15 events in 1990 to just 9 in 1991. The time thus saved he is devoting to working with Acxiom's research and development department to stay close to the technical needs of customers. Over the Thanksgiving holiday he finished writing a key piece of software that simplifies customer access, over dedicated phone lines, to Acxiom's mainframes in Conway.

In order to expand without diverting too much attention from the basic business, Morgan is turning to joint ventures. Long-term deals with the nation's biggest junk mailer, Advo, as well as with Fulfillment Corp. of America, a magazine service firm, among others, should make up for lost computer processing revenues. Morgan says several similar deals are in the works.

All in all, things are looking better. Dathan Gaskill, an analyst at Stephens Inc., thinks Acxiom's earnings should recover to $1.20 in fiscal 1993, though he readily concedes that Congress or the economy could delay the comeback.

Charles Morgan does have one thing to be thankful for: Business can be a lot more forgiving than auto racing. Asked what would happen if he drove a race car the way he steered Acxiom in the late Eighties, Morgan shakes his head and laughs. "You would be very unsuccessful," he says with a knowing smile. "You might run into a wall." ■

A small country, Norway has big ambitions for its state-owned oil company.

Norway: the new Kuwait

By James Cook

UNDER normal circumstances, Kuwait gets most of its national income from oil—$4,600 a year for every Kuwaiti resident.

Norway can't quite match that, but it does produce nearly $16 billion worth of oil a year from fields in the North Sea. That's equivalent to about $3,800 for each and every one of the 4.2 million inhabitants of this sparsely populated country.

Kuwait at least puts aside a large part of its oil revenues as investments for the future, but the Norwegians spend most of theirs. Rather than investing for the future or using its oil revenues to reduce the common man's tax burden—already one of the highest in the world—Norway simply pours the proceeds into its already bloated bureaucracy and social welfare system. The latter is so generous that it provides not only sickness benefits and child care assistance but also funeral grants, seven-month paid maternity leave and pensions for orphans and single-parent children.

It will probably get even more generous. Without anyone's paying much attention, Norway has begun to emerge as one of the major players in the international oil industry. The North Sea has been one of the world's great oil provinces for two decades now, but until recently Norway has always run a poor second to the U.K.

In 1991, however, Norway began outproducing Britain by more than 100,000 barrels a day, and over the next few years Norwegian production will rise a good 25%—to 2.5 million barrels a day—thus widening the gap with the U.K. even further *(see map)*.

In the tightening oil markets of the Nineties, when U.S. and Soviet production is almost certain to continue to decline, Norway and Venezuela (FORBES, *Oct. 28, 1991*) are the only two countries outside the Middle East that have much potential for sizable increases in production.

Oivind Holm Karlsen, 34, is president of Statoil North America, the U.S. arm of Statoil, the Norwegian state oil company. "We see North Sea production as fairly stable for the rest of the century," Holm Karlsen says, "with maybe a 15% to 20% increase. And that increase will come mainly in the Norwegian sector."

The first commercial discovery in Norway's giant Ekofisk field was made in November 1969, nearly a year before British Petroleum announced it had found oil in Britain's Forties field. But thereafter, while Britain raced to expand production, Norway took its time, expanding slowly and deliberately, so that by 1980 Norwegian production was less than a third of the U.K.'s.

As a semisocialist country, Norway was reluctant to let foreign oil companies handle the job. Says Holm Karlsen: "We saw the development of the Norwegian shelf as a Norwegian activity, and we decided the investment position had to be portioned out over a number of years, so Norwegian industry could gear up to handle it." In 1972 the Norwegian government created Statoil as the vehicle for its ambitions in oil.

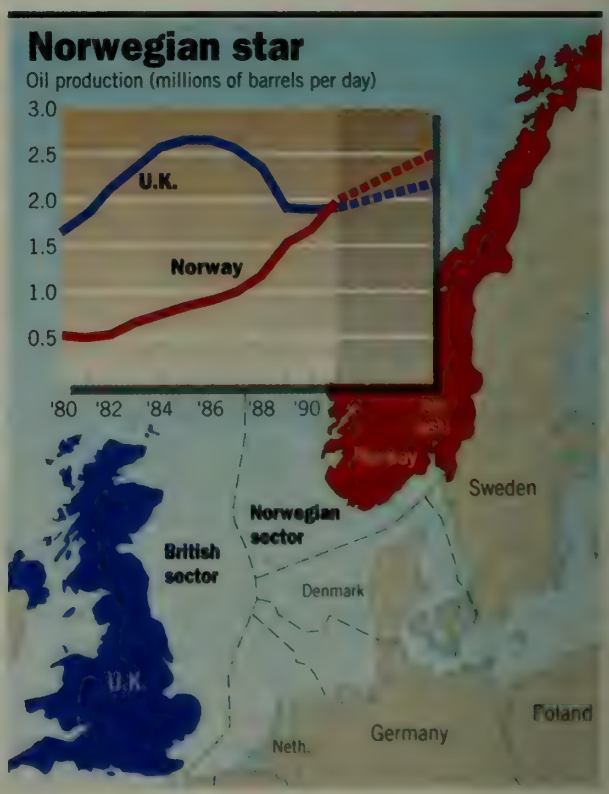
While Norway's state oil company geared up, the early development of its offshore fields was undertaken mainly by outside companies—the Statfjord field by Mobil, Ekofisk by Phillips Petroleum. Even then, Statoil took at least a 50% interest in any license it granted. By the mid-Eighties, when it had finally acquired the expertise it needed, Statoil began striking out on its own, bringing the Gullfaks field into production in 1986, Veslefrikk in 1990, with Sleipner, a large offshore gas field, slated for 1993.

Foreign companies still account for roughly 40% of Norway's production, but that ratio will decline somewhat as

Thomas Iannuzzi

Statoil North America President Oivind Holm Karlsen

Last year Norwegian production topped Britain's for the first time. By 1995 it should be way ahead.



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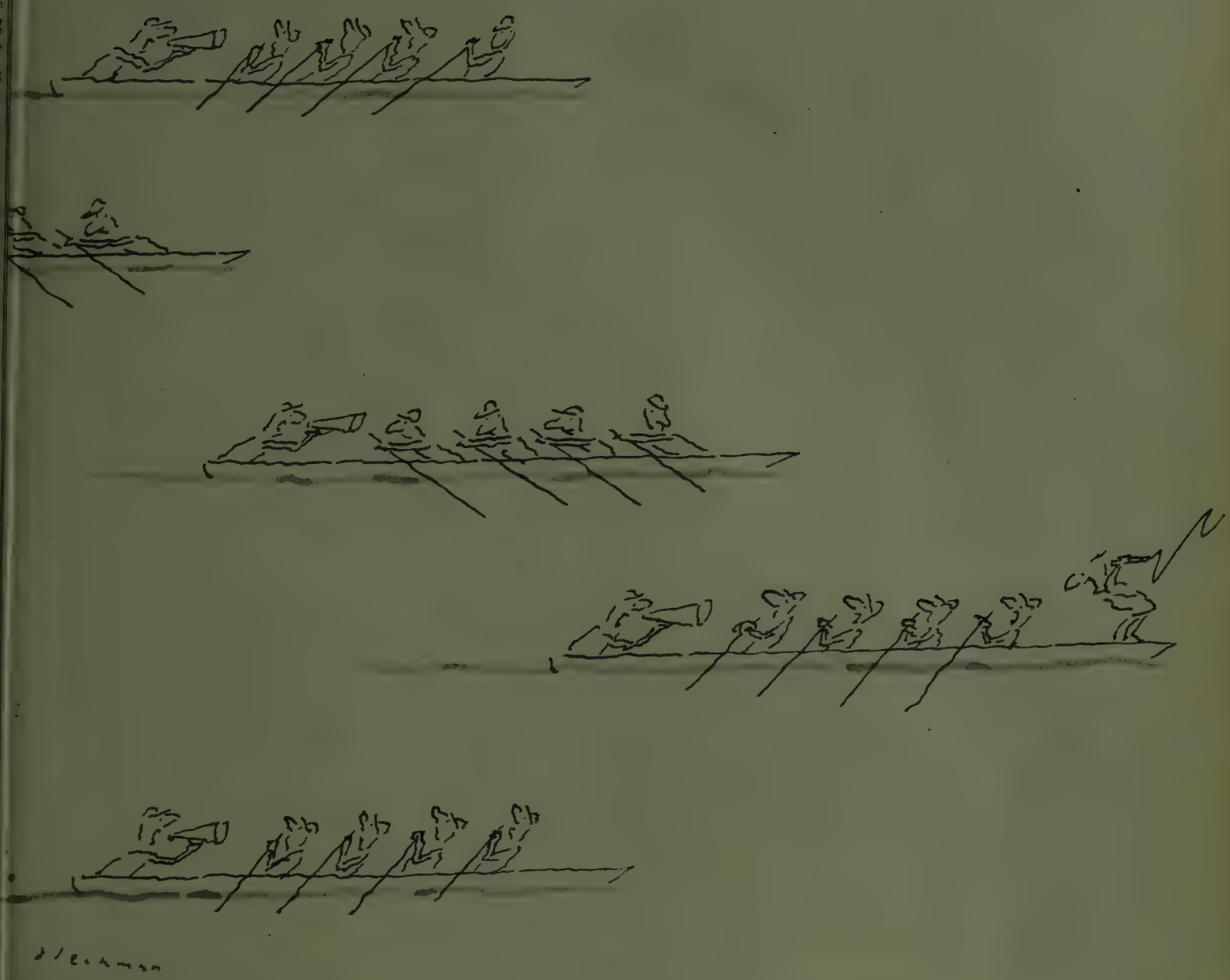

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Statoil expands production over the next five years.

In 1990 Statoil grossed a hefty $12.3 billion, roughly as much as Phillips Petroleum, and earned a comparable $556 million. The Norwegian bureaucracy takes in taxes 54% of Statoil's operating income and siphons off an additional 10% in the form of dividends. That leaves roughly $300 million a year for reinvestment, enough so that Statoil is able to finance its expansion without having to borrow.

One of Statoil's largest export markets is the U.S. and Canada, where it sells 230,000 barrels a day, mainly premium-priced low-sulfur crude. A year or so back, Statoil was putting a lot more emphasis on the U.S. market than it does today. The breakup of the Soviet bloc has opened up major opportunities for Statoil—in Poland, for example—and it makes sense for Statoil to concentrate more on a nearby market that is one of the most underserved in the world.

With Norway's proven oil reserves conservatively calculated at 16.7 billion barrels, 23 years at current rates of production, and another 14.7 billion in probable reserves, Statoil has plenty of staying power. In addition, it has huge reserves of natural gas, the largest in Western Europe. Still largely untapped, these gas reserves are scheduled for major exploitation; by 1996, Statoil expects to more than double its natural gas production, to over 10 billion cubic meters, and to develop new markets both in Europe and the U.S.

Though small in international oil terms, Statoil has big ambitions. "We're going to become really international," Holm Karlsen says. Statoil has worked out an informal partnership—in research, exploration and natural gas marketing—with British Petroleum, a deal that has already given Statoil footholds in West Africa, Vietnam, China and the former Soviet Union. Statoil has spearheaded a deal involving other Norwegian firms and worth more than $3 billion over 15 years, to sell natural gas to National Power, Britain's largest electric-generating company. On its own, Statoil has begun looking for oil in Thailand and is setting up a trading operation in Singapore. ■

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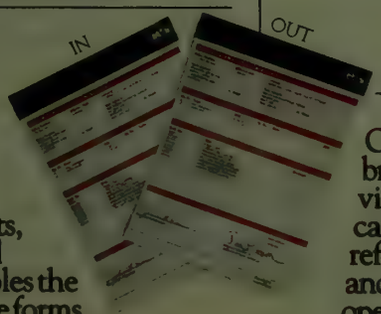

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Let IBM and the others knock each other's brains out competing for the high-tech end of office equipment. Newell prefers the disposable low-tech stuff. It's an approach that has created extraordinary growth out of the most ordinary of products.

The old-fashioned way

Bill Wax

By Tatiana Pouschine

A QUARTER-century ago, long before buyouts became a household word, Daniel Ferguson, now 64, was buying up smallish companies. Taking over the family curtain rod business from his father in 1966, he did his first deal a year later. Since then he has acquired over 30 more companies as chief executive of the Newell Co. of Freeport, Ill., buying businesses with such oddly assorted and everyday products as paintbrushes, cabinet hardware, aluminum pots, glass containers and blowtorches.

In the early days his buys were small; more recently he has stepped up the scale. In the past five years alone, Ferguson has purchased or bought into for cash and stock such publicly traded companies as Anchor Hocking, Vermont American, Thomas Industries, Lancaster Holdings and Sanford Corp. He is currently eyeing Stanley Works, the tool company. With these humdrum businesses, few of which grow faster than 5% a year, Newell has had a compound growth rate of 19% for the past 15 years. When Ferguson took over from his father, Newell had revenues of $14 million. Last year its revenues were $1 billion, its net profit over $100 million.

Paying frequently with stock, Ferguson had to accept a great deal of dilution in the growth process. So much so that the founding families' ownership of the company has dropped from the original 100% to just 15%. But the growth has been real all the same, and investors who bought stock in 1980 saw original stakes of $1,000 grow to $23,000 by 1990, assuming that dividends were reinvested. Newell's return on equity in 1990 was a highly satisfactory 20%.

Miscellaneous though its product line may look, Newell is actually a very disciplined company. The marketing is tightly focused: Most of Newell's sales are made to relatively few customers, giant retailers of housewares and hardware such as Kmart and Wal-Mart.

Back in the Seventies Ferguson saw that the mass-volume retailers were slowly knocking out smaller retailers. By winning business from the big boys, he saw a way to piggyback on their growth, even though he was in businesses where the overall growth was only moderate. Today Wal-Mart and Kmart alone account for 18% of Newell's sales.

A similar philosophy underlies Newell's industrial products, mainly bottle caps and closures. These, too, are sold to a few big customers—Gerber, Kraft and H.J. Heinz.

Whether in consumer goods or industrial products, by dealing with relatively few customers Newell can concentrate on the needs of those customers rather than try to please everybody, and can thus hold down distribution and selling costs.

How does Ferguson choose businesses to be in? Why, for example, a mundane product like bobby pins? Ferguson wants businesses where production efficiency counts for more than product innovation, where the low-cost producer is almost automatically the dominant producer.

By getting and keeping big customers like Wal-Mart and by investing heavily in machinery and equipment, Ferguson assures that his factories achieve maximum economies of scale and of distribution. Smaller producers with less capital simply can't compete.

But Ferguson wouldn't be interested in a company that makes, say, shelving for retailers. "All you need is a saw and a garage, and you're in the shelving business," says Ferguson. That's not true for glass, a capital-intensive business, where Newell has gotten 14% of its sales since its acquisition in 1987 of Anchor Hocking, a maker of glass containers and tableware. "It's going to take someone $100 million to get into the glass container business," says Ferguson. "So, if you do get the business rationalized and nicely profitable, you're

James Schnepf

ABOVE:
Playing the home-office trend
LEFT:
Newell Co.'s Daniel Ferguson
Disarmingly relaxed, Ferguson is relentless when he finds a business he wants to acquire.

not going to attract a lot of other people into the industry."

Once he has acquired a business, Ferguson sets about adding value to his purchase. It may need capital. Or good product lines may be dragged down by weak product lines or underutilized assets. "There are very few clean businesses," he says, "once you get above $50 million in sales."

Because he is not at all afraid to close down product lines that dilute overall profitability, Newell's revenue curve doesn't go straight up. In 1989 Ferguson sold William E. Wright/Boye Needle, a sewing business, though it meant Newell's sales would drop by $30 million. "Our population isn't interested in sewing and knitting. TV has slowed all of that down," he says. Newell's sales declined nearly 5% in 1990 and another 3% in the first six months of 1991.

Yet despite the sales declines, Newell's income from operations rose over 5%, to $174 million, from $165 million last year and 9% in the first half of this year.

When he sees a company he thinks isn't managing its assets efficiently, Ferguson goes after it with a mixture of patience, persistence and ruthlessness. A large family holding doesn't deter Ferguson. He began to accumulate shares in Vermont American and Thomas Industries, even though the Thomas family of Louisville, Ky. had a 15% interest in Thomas Industries and completely controlled Vermont American.

Ferguson wanted Thomas Industries' paint applicator business to combine with Newell's EZ Painter Corp., a manufacturer of paint applicators like rollers, brushes, flat pads and trays. The Vermont American asset he wanted was its $150 million power tool accessory line with a number one or two market slot.

By early 1988 Newell had taken an over 5% stock position in both companies. The controlling family was outraged but in the end struck a deal. In a swap for Newell's roughly $12 million stock position in Thomas Industries, Thomas' management handed over to Newell the paint applicator business Ferguson wanted.

Still miffed, the Thomas family repulsed Ferguson's attack on Vermont American by selling out to Emerson Electric for $440 million in late 1988. But Ferguson had the last laugh when he tendered his shares to Emerson: On a $20 million investment in Vermont American, Newell made a tidy $26 million gain.

And if the takeover game has slowed, no one has told Ferguson. He has gone after Kearny, N.J.-based Goody Products, the leading manufacturer of hair care accessories, including barrettes, combs, ponytail holders and bobby pins.

Newell has accumulated 13.4% of Goody's 6.5 million shares for $13 million. Ferguson notes that sales are so steady Goody virtually "owns" the 4 to 40 feet of counter space big discounters dedicate to their hair accessories. A perfect fit with other Newell products.

Ferguson hasn't been able to persuade the Goodman family, which owns or controls over 40% of the company, to sell. Oh, well. Newell already has a 42% unrealized gain on an investment that is now worth $15 million.

Meanwhile, Ferguson has turned his attention to another business that fits his criteria: office products. Sanford Corp., the leading U.S. maker of felt-tipped pens, was more receptive to his blandishments than Goody was. In November it sold out to Newell for $600 million in Newell shares. Sanford fits nicely with W.T. Rogers, which Newell bought last April in exchange for 1.7 million Newell shares. With $45 million in sales, W.T. Rogers manufactures and markets office supplies and accessories.

Office supplies? Why? Ferguson sees the business as a place to apply his original vision: producing disposable products for mass consumption at the lowest manufacturing and distribution costs. He expects that as more and more people work at home, retail sales of office supplies will climb. We're not talking high-tech items like computers and the like, where competition has played hell with profit margins, but simple stuff like paper

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There are already 17 million home offices in the U.S. and the number grows steadily, according to Ferguson. He thinks it will pay for the giant retailers to devote more space to disposable office products. Thus his big retail customers will get more and more of the business at the expense of smaller stationery stores, and Ferguson hopes Sam Walton will choose Newell as his principal supplier of office stuff.

"What's happening to office products is the same thing that happened in hardware," Ferguson says. "Instead of happening over a 35-year time period, it's happening over a decade or less." The mom-and-pop stationery stores are losing out to Wal-Mart and Office Depot, among others.

In August of this year Ferguson made yet another move, buying $150 million of convertible preferred in Black & Decker, the maker of power tools. Together with an equity position, that would give Newell a 15% stake in the company. Black & Decker, of course, would complement nicely Newell's hardware division. So would New Britain, Conn.-based Stanley Works. Stanley thought it had driven Ferguson away earlier this year, but in December Newell filed its intent to buy up to 15% of Stanley's stock. Stanley's management called the move "undesirable and unlawful." But Ferguson is as patient as he is tough.

Looking disarmingly relaxed, Ferguson appears at his modest offices wearing a well-pressed blazer instead of a suit and speaks with a slow midwestern accent. After talking with him for even a short while, one sees that he is not one of your glib Wall Street leveraged-buyout artists but a real, old-fashioned operating man who acquires not for financial leverage, but to carry out a well-defined business philosophy. Perhaps that's why Ferguson has never been tempted to move his headquarters to Manhattan. He spends most of his time in a small, nondescript office in Naples, Fla. where, as he puts it, he has time over the weekend to ponder what he did last week and will do next week. ■

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College administrators are masters of public relations, whatever their deficiencies as educators.

Unsung heroes

BY THOMAS SOWELL

Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

THOSE WHO THINK that this is an era without heroes may not be looking in the right places.

Certainly there are few heroes to be found along the banks of the Potomac, and many ivy-covered campuses are scenes of some of the most abject cowardice to be found anywhere, as college administrators have turned surrender to strident demands into a fine art.

Ironically, however, some of the most heartening signs of courage are also to be found on many college campuses. Students who publish unofficial college newspapers, challenging the imposed ideological conformity known as "diversity," do so at risk to their social acceptance, their academic standing and even their physical safety. These unsung heroes are a major source of information about the internal corruption of American higher education.

Occasionally, the national media get a glimpse of the ideological intolerance on campus when some well-known public figure is prevented from speaking by the storm-trooper tactics of a cadre of student activists—who are seldom either resisted or punished by the college administration. But, in many other instances, where neither the occasion nor the speaker is such as to attract reporters, similar or worse things may happen without anyone off campus realizing what is happening.

When a black student at Vassar College unleashed a torrent of anti-Semitic abuse at a campus gathering there a few years ago, the school's administration was far more interested in hushing up the incident than in punishing the student. Only the courage of the students who published the *Vassar Spectator* brought this disgrace to public attention, despite pressure from the college administration to squelch the story.

The whole apparatus of campus thought control known as "political correctness" was first exposed by unofficial college newspapers, sometimes known as "conservative" newspapers (with varying degrees of accuracy). Only after their many horror stories began to be picked up by journalists in the mass media did this become a public issue.

As an industry whose image is its bread and butter, because of its heavy dependence on outside sources of money, academia maintains a tight control on what information will be allowed to reach the public, and with what "spin" put on it. Such public relations products as alumni magazines or college press releases will never betray any secrets that would jeopardize private donations or government grants. It took federal investigations to ferret out Stanford's widespread misuse of government grants for campus perks.

The official college newspapers are unlikely to expose ideological double standards and campus thought police at work, simply because the students who work on such papers are almost invariably of the dominant ideology themselves. That is why it was necessary to establish unofficial student newspapers in the first place.

College administrators are masters of public relations, whatever their deficiencies as educators, and they have understood from the outset the danger that unofficial student newspapers represent—and have repeatedly tried to suppress, impede or intimidate them. On some campuses, only the issuance of court orders has stopped administrators from interfering with the distribution of these unofficial student newspapers. At the University of California at Davis, the conservative paper can only be distributed at a remote location, well removed from where the officially approved papers are made available.

Increasingly stringent speech codes at colleges across the country make normal journalistic criticisms hazardous to students who write for unofficial campus newspapers. Objections to double standards for minorities, women or homosexuals are often equated with "racism, sexism and homophobia"—charges which can bring on a variety of punishments, including suspensions and expulsions.

Being a student journalist on a conservative campus newspaper has other hazards as well. Some professors have not hesitated to denounce these students in the classroom—sometimes with obscenities—for what they have written in their newspapers. Cries of "fascist" as they walk across campus, anonymous death threats, and an occasional rock or bottle thrown through a window—these are all part of the experience of students writing for conservative campus papers.

Another common experience is being depicted as rich, white male racists—even when these newspapers have been run by women editors, by black editors or by Asian editors, each of whom has been in charge of the *Dartmouth Review* at one time or other. The publisher of the *Princeton Tory* described herself as the first member of her family to go to college and the editorial staff of the *Vassar Spectator* has been characterized as mostly first- and second-generation Americans.

Desperate efforts to destroy or discredit unofficial or conservative campus newspapers are a testimonial to their crucial importance in letting the public know what college administrators don't want us to know. ■

In a surprise turnaround, three of Germany's top automotive journals rated the all new Audi 100 ahead of Mercedes and BMW.

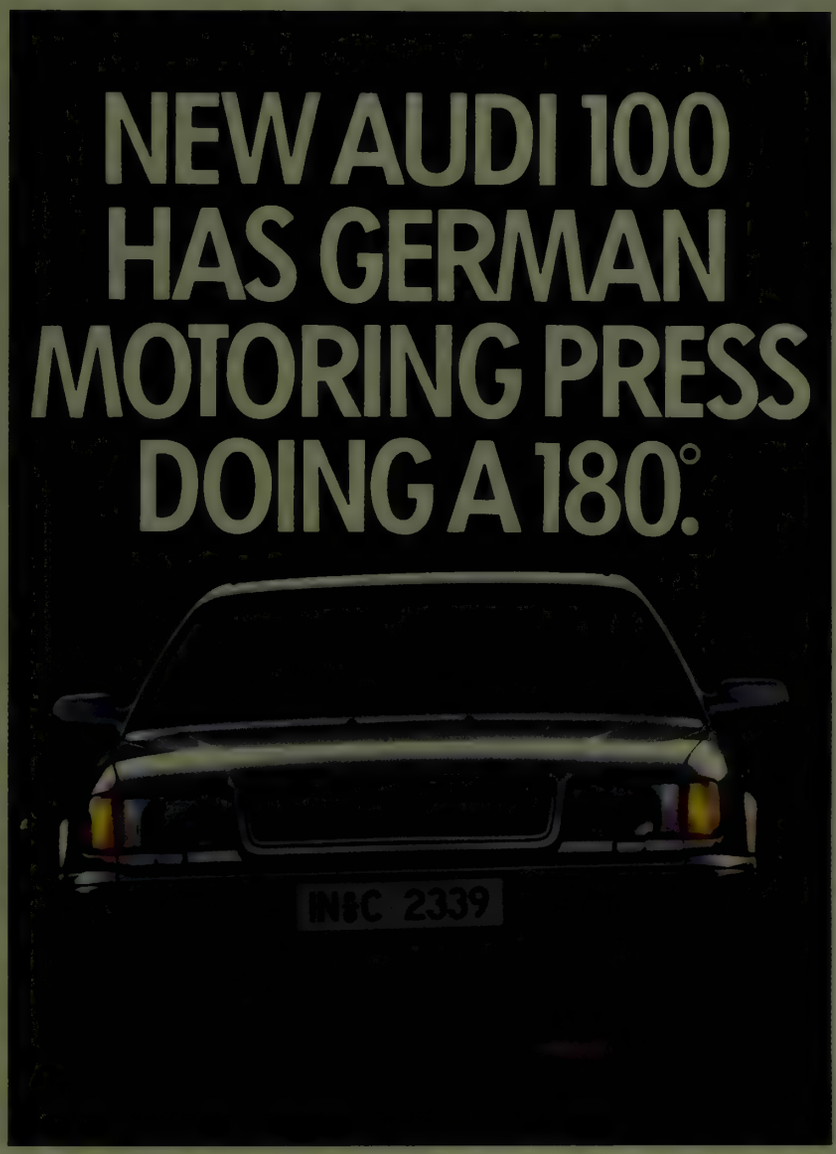
Long regarded as the reigning monarchs of German performance sedans, Mercedes and BMW have never had much concern about a possible dethronement. However, that was before Audi engineers unveiled their most impressive achievement to date. The all new Audi 100.

In a series of extensive tests conducted by three of Germany's top automotive journals, the totally redesigned Audi 100 outscored both Mercedes and BMW.

According to AUTO MOTOR UND SPORT, the Audi 100 took control of the testing early and often, besting Mercedes and BMW in Bodywork, Handling and Control, and Economy. **"Audi has succeeded...in not just drawing level with the competition, but moving ahead of it."**

It would seem that the eight years Audi engineers had labored over this newest of Audis had indeed paid off. As Andres Borchman, editor of AUTO BILD, said, **"The new Audi 100 is no longer number three among the distinguished German marques, but, as the test proves, number one."**

The test journalists at MOT made it unanimous: **"The Audi is clearly the deserving winner."**



Both on the surface and beneath the skin, the new 100 differs dramatically from its predecessors. The styling is more dynamic. The interior is roomier. And the venerable 5-cylinder power plant has given way to a 172hp V-6 engine with superior low-end torque.

One area that wasn't tested but should be mentioned is the Audi Advantage: A program that includes the cost of all scheduled maintenance, even oil changes, for three years or 50,000 miles.

Neither Mercedes nor BMW can top it. Nor can they any longer claim to be at the top of this class. That honor now belongs to the new Audi 100.

AUDI 100S
AT A GLANCE

GENERAL: Front-wheel drive, 5-passenger sedan, 4-door galvanized body. Base price: $29,900*

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DRIVETRAIN: 4-speed automatic or 5-speed manual transmission.

STEERING: Rack-and-pinion, power-assisted, vehicle speed-sensitive.

BRAKES: ABS, power vented front discs, rear discs.

PERFORMANCE: 0-60 mph in 8.8 sec / Top track speed 130 mph (manual version) 26 mpg Highway, 19 mpg City.†

MAJOR STANDARD EQUIPMENT: Driver's side airbag, automatic tensioning front seatbelts, power steering, windows, seats, and locks, A/C, cruise control, tilt and telescopic steering, two-way power sunroof.

SOUND SYSTEM: 8-speaker AM/FM stereo radio/cassette w/anti-theft features.

**Price based on MSRP with manual trans., excluding taxes, license, freight, dealer charges and options. Equipment levels vary. Prices subject to change. †1992 EPA estimates.*

For the Auto Motor Und Sport test results, call 1-800-FOR-AUDI.

Tom Bates and Bill Guthrie, a couple of former college teachers, always wanted to go into business together. They were off and running within minutes of getting an idea while watching TV.

Educating Ivan

By Dyan Machan

TWO MEN sat glued to Cable News Network in their living rooms on Dec. 7, 1989, when the Berlin Wall was crumbling. A business was born that evening.

They were an interesting pair. Thomas Bates, 35, a onetime editor of *Soldier of Fortune,* who had later tried running money for Brown Brothers Harriman & Co. in New York, had taught English and philosophy at the University of Colorado and was currently unemployed. William Guthrie, 41, was doing research and writing for a financial consulting firm in Bayview, Idaho. Guthrie had a Ph.D. in comparative literature and had taught English at the University of Colorado for seven years. The two had long thought of doing business together. Watching on CNN as the Wall crumbled, Guthrie called Bates and said one word: "Spectator." Bates knew exactly what he meant.

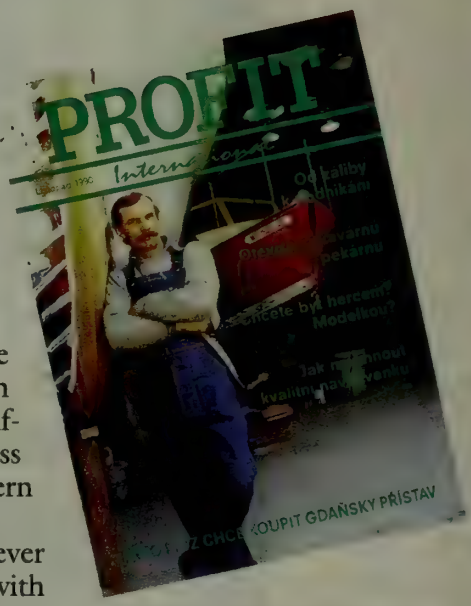
Guthrie was referring to what historians believe was the first magazine ever published, the 1711 publication aimed at London's rising middle class. It taught recently up-from-the-farm folks about elementary manners and other facts of social life. Wasn't all of Eastern Europe just emerging from the dark ages of socialism? Why not do for Eastern Europe what Addison and Steele did for London with the *Spectator*? A nuts-and-bolts magazine with practical advice on how to start and run businesses in a market economy.

The partners had been active in helping refugees from communism get settled and find jobs in the U.S. While doing graduate work as a Rotary scholar at Universität Regensburg, in West Germany, from 1980 to 1983, Bates ran an underground railroad through a pass in the Alps, through which he smuggled dozens of Czechoslovakians into the U.S., the last being an architect he later married, Helena Hejcmanova. Bates and Guthrie understood how ignorant Eastern European people were of the simplest facts about life in a market economy. "The self-evident truths of small business are totally opaque to most Eastern Europeans," says Guthrie.

That was the germ of a clever idea to publish a magazine with practical information on starting basic businesses in Eastern Europe. They figured the magazine would have several editions, one for each Eastern European country. Each edition would be translated into an Eastern European language but would also carry the English translation. Says Bates: "It's like learning Italian if you want to sing opera. For business, they must learn English."

Bates and Guthrie would produce the editorial product at low cost and sell advertising in free markets worldwide. The editorial and advertising pages would be photographed onto film that would be sent free to a printer and distributor in, say, Poland. The Polish printer would then make his money from newsstand sales. No cross-border currency exchange and no taxation.

They needed a catchy name. At first they thought about calling it *Spectator* but figured it would have little meaning to fledgling entrepreneurs. They hit on "profit," a word certain to get attention in countries where profit had been, not a dirty word, but a criminal word for decades. So they called it *Profit International Business* magazine. Banal as that sounds here, it's sort of like naming a U.S. magazine *Embezzlement,* says Guthrie.



William Guthrie and Thomas Bates of "Profit International" **Calling for ads worldwide from a damp, unheated basement in Idaho.**

Alejandro Tomas

There was almost no competition. The local magazines were macroeconomic in approach or carried reprints from Western magazines that were too narrow in scope. The *Wall Street Journal* was available in some countries but spoke a language almost unintelligible to people who lacked even the grammar of capitalism.

Three months after the CNN broadcast, in April of 1990, Bates took his wife and baby to Czechoslovakia, where they planned to launch what they called the test issue. Bates financed the trip by selling his collection of rare books, among them an 18th-century copy of John Donne's

poems and a 19th-century copy of Aristotle's *Poetics*. Bates hated to part with the books, but the trip confirmed his expectations.

Thus did Bayview, Idaho become world headquarters of Profit Business Publishing. Its office is the unheated basement in Guthrie's rented house, furnished with a table, a telephone and a personal computer. Drawing on his prior work in academia translating Middle English and Old Norse, Guthrie fine-tuned the software, thus enabling articles to be written on one screen in two different languages. Bates tried to sell ads.

How do you sell ads for an untested publication in a depressed world market for advertising from a damp cellar in Idaho? Nerve and perseverance. They found a dog-eared 1987 copy of the *National Directory of Addresses and Telephone Numbers* in a dumpster and used that to make cold calls. "I was sitting at the card table, calling all over the world to convince people to buy something that didn't exist," Bates says. On Pacific Time, he started working from 10 p.m. until 6 a.m., calling Europe and the Far East. Bates remembers calling South Korea's huge conglomerate Lucky-Goldstar and negotiating with a Korean who "spoke about six words" of English. "But I kept chewing at his ankle," says Bates. It paid off. Goldstar bought a back-page ad for an over 50% discount of the $5,000 basic page rate. Unfortunately, revenue from the ad didn't cover the phone bill from South Korea. Even so, it was a start. More ads came in from Visa International, London; Price Waterhouse, London; Rank Xerox, London; and Bio-Rad Laboratories, Vienna. Even some local businesses like Jacklin Seed Co. of Post Falls, Idaho pitched in.

Many of the ads were heavily discounted or traded for goods. Cash receipts for 12 pages were just $6,000—with another $24,000 promised over the coming year. It cost $22,000 to produce the first issue. Net loss: $16,000.

In two months Bates and Guthrie had run through $20,000 in collective savings, so they started running up their credit cards and calling on friends for help. A former employer donated the use of its fax machine. A Bayview accountant and a Denver law firm donated their time, too. Guthrie asked them both to make up bills that they promised someday to repay, but in each case, the professionals just

New technology can seem a little intimidating.

Recently a leading computer industry publication reported some frightening statistics.

While investments in information technology have reached 40% of U.S. capital spending, national productivity has not improved since 1973.

So the anxiety over new spending is justifiable, even healthy.

The evidence indicates tha technology alone doesn't pay off. Maybe it's time to recogn that hardware companies sel hardware. Period.

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wanted to help. Neighbors gave the struggling entrepreneurs venison, salmon and a 50-pound bag of flour. "It's not that we were starving as much as people just wanted to be part of it," Guthrie says.

A dirt path between the Bates and Guthrie homes became worn, with both families working almost around the clock. After Bates worked his midnight shift, Guthrie's wife, Kim, would come down to the basement to type the translated articles into the computer. Then Helena Bates would edit the Czech translation.

"The self-evident truths of small business are totally opaque to most Eastern Europeans," says Guthrie. The magazine will also carry an English translation. Says Bates: "It's like learning Italian if you want to sing opera."

Thirteen weeks after they began work, 25,000 copies of the 64-page *Profit* magazine were on newsstands in Czechoslovakia, selling for 15 koruna—then the equivalent of about a dollar. The stories covered setting up a hair salon, starting a local chamber of commerce and defining "profit." Because he got to keep the entire proceeds of the newsstand sales, the printer sold aggressively, selling out in three weeks. A second Czechoslovakian issue was cranked out in four weeks and sold out, too.

The next plan is to launch editions for Hungary, Romania, Poland and a Russian-language edition for several republics in the former U.S.S.R. Bates and Guthrie know they must move fast to establish toeholds before a better-heeled competitor moves in. For this they will need outside capital. Bates says they need $1.25 million, for which Bates and Guthrie are willing to give up a 25% stake.

The two say they have lined up nine possible investors. Say this for them: Their journals cover a subject Guthrie and Bates know from the ground up. There's little they haven't learned this past year about the vicissitudes of starting a business.

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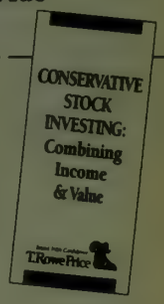

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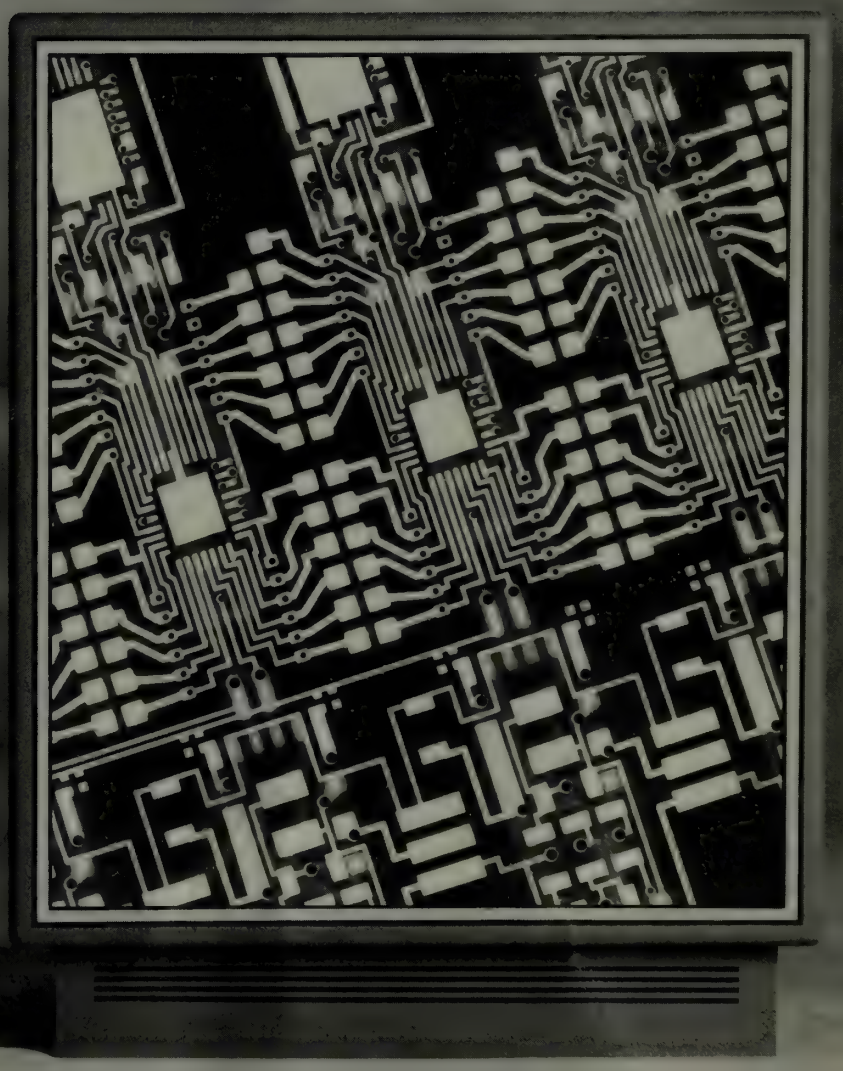

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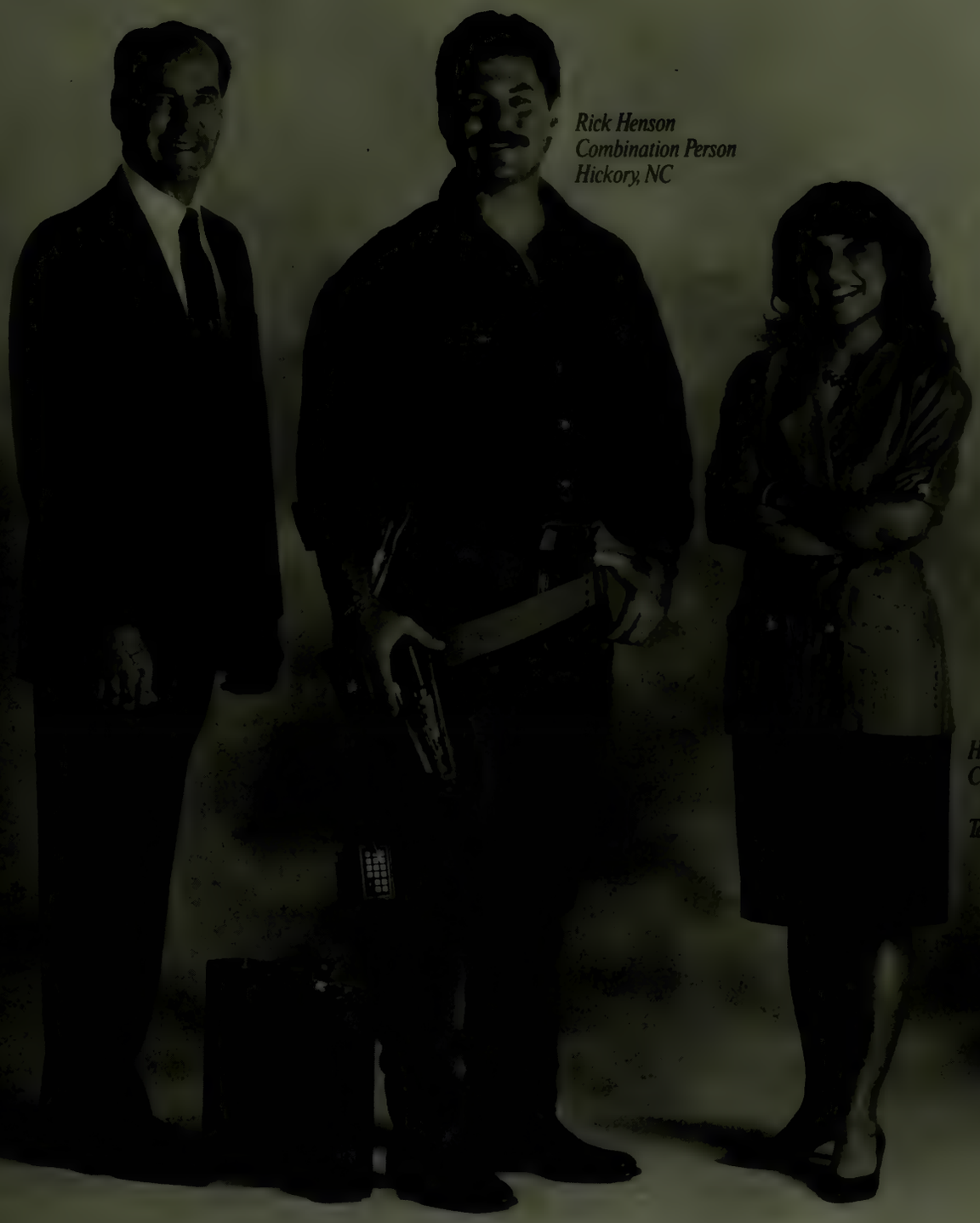

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Do institutional investors get better treatment than retail customers? A look at two investment pools raised by Trammell Crow suggests they do.

A tale of two funds

By Howard Rudnitsky

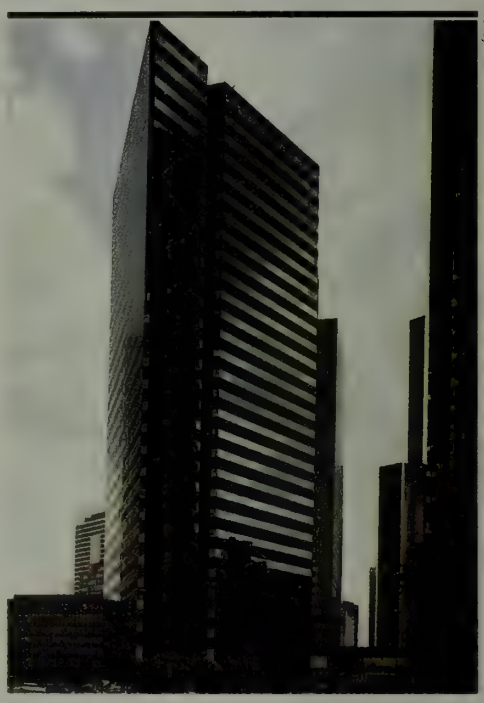
IF YOU'RE going to invest in real estate, it's better to be a well-heeled institution than an individual investor. That, at any rate, seems to be the lesson that emerges from a look at two property investment funds raised in the mid-1980s by Dallas' Trammell Crow Realty Advisors.

Consider first the money the Trammell Crow people raised from institutional investors. In May 1986 Trammell Crow Advisors brought out the Trammell Crow Equity Partners I fund, a leveraged vulture fund partnership. Pension funds like Ameritech, Du Pont, Michigan Retirement Systems plus some Japanese insurance companies invested a total of $196 million in the fund, which invested mainly in office buildings in energy-producing states. To reassure the institutions, the Trammell Crow organization put $10 million of its own money into the fund.

While many of the fund's properties did all right, unfortunately about 20% of the fund's equity was invested in One Dallas Centre, a downtown Dallas office building. About two years after the advisers bought the building, its biggest tenant, First Republic Bank of Texas, went bankrupt. This was followed by the dissolution of Drexel Burnham Lambert, another major tenant. Today, One Dallas Centre's vacancy rate is 60%.

Whereas the annual return on the institutions' equity originally was projected at up to 17% at the end of 12 years, so far Trammell Crow Equity Partners I has rung up a negative annual return of some 15%, after management and other fees.

Say this for the Trammell Crow people: They are doing whatever they can to avoid alienating their institutional investors. They are taking money out of their own pockets and putting it back into the fund. Robert Whitman, current manager of Equity Partners I, notes that at One Dallas Centre a considerable amount of fresh money will be needed for tenant renovations and to provide leasing commissions to brokers looking for new tenants. Whitman knew his institutional investors wouldn't appreciate a capital call. Solution: "We decided we would forgo $6.5 million of management fees due us over the next three years," says Whitman.



Randy Hahn

One Dallas Centre
With 60% vacancy, it needs cash.

Compare this with Trammell Crow's treatment of individual investors. In November 1985 Goldman, Sachs and E.F. Hutton underwrote and sold 9 million units of Trammell Crow Real Estate Investors, a real estate investment trust, primarily to retail investors at $15 per unit. This equity, plus debt sold in the form of $180 million (principal amount) of 12% zero coupon notes due in 1997, was used by the REIT to purchase 18 existing industrial properties around the country and a shopping center in Denver.

The properties purchased by the REIT were owned by Trammell Crow partners, and some of them were being propped up by temporary rent supports when the REIT bought them. As a result, Jon Fosheim, partner in Green Street Advisors, an institutional real estate securities research firm, estimates that the Trammell Crow people overcharged the REIT by as much as $25 million for these properties. The investment bankers, meanwhile, received about $13 million in underwriting fees. To make the REIT attractive to public investors, the advisers had to put a competitive income yield on the units. When the issue came out, its annual dividend was $1.18 per unit, a 7.9% yield. That was adequate, but as it turns out, unsustainable.

The REIT's rental income peaked in 1987 at $18 million, while expenses necessary to keep tenants or get new ones rose by $2 million through 1990. The dividend has since been hacked to an annual rate of 32 cents per unit, and the price of the REIT's units has dropped from $15 apiece to a recent $2.

While the Trammell Crow operation has made financial concessions to its institutional investors in the Equity Partners I, it is not doing the same for the 2,900 individual investors stuck in the Trammell Crow Real Estate Investors REIT. Since 1985 Trammell Crow has received nearly $8 million in advisory and management fees from the ill-starred REIT, and it continues to exact fees at the rate of over $1 million a year. All it has done so far for investors is to buy in some of the bonds at a discount, which will reduce interest costs.

Moral: If you're going to put money in an investment pool, you'll probably be treated nicer if you're an institutional investor with clout.

One Look At Our Trailers, And A Lot Of Companies Decide Not To Move Their Employees To Alabama.

Alabama Industrial Development Training has the largest and best-equipped mobile training fleet in the nation. This free service is a key factor in attracting companies like GE, whose largest single capital investment is in Alabama.

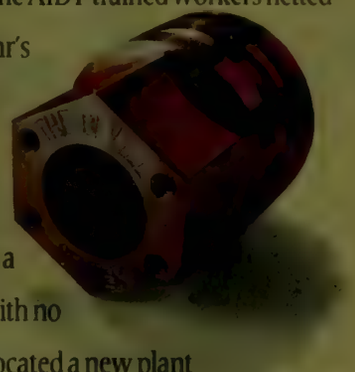
Alabama goes the extra mile for new industry, so companies don't have to go out of their way to find the right workers. Alabama Industrial Development Training, a free service of the state for industry, has the nation's largest fleet of mobile training units. Other services, like The Bevill Center for Advanced Manufacturing Technology, also contribute to a skilled work force. These programs don't just attract new business—they help businesses expand.

AIDTraining customizes programs for each company, giving workers hands-on experience with the actual equipment to be used in the plant. It has three strategically located, specialized training facilities in the state. And when on-site training is needed, AIDTraining outfits mobile units to teach skills from microprocessor maintenance to electronic assembly. The program continues to offer support as the plant expands.

The companies that use AIDTraining demonstrate its success. After one year of operation, plants with AIDT-trained workers experience less than two percent absenteeism, and less than one percent turnover.

Our Advanced Mobile Training Program Recruits And Custom-Trains An Alabama Labor Force On Site.

Rohr Aircraft started a small plant in south Alabama with just 50 workers. The productivity of the AIDT-trained workers netted 25 percent more profit than Rohr's other divisions, leading them to expand to a labor force of 500.



General Electric was the first company in the U.S. to establish a chemical plant using workers with no related experience when they located a new plant near Montgomery. Their trust in AIDTraining paid off. High productivity led to a recent expansion, making the plant the largest single capital investment GE has ever made, almost $1 billion.

Several Alabama companies credit The Bevill Center for Advanced Manufacturing Technology with providing the expertise and training that have enabled them to open new divisions and expand into new markets. The Center performs applied research to help companies improve productivity by solving manufacturing problems and redesigning production systems. Employee training, ranging from statistical process control to CAD and CAM technology to automated inspection, is then provided. In the four years since The Bevill Center began, over 17,000 people have participated in its programs.

Alabama has the resources to offer industry a labor force with the productivity levels that maximize profits. AIDTraining and The Bevill Center are just two reasons why Alabama is worth the trip.

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The bulls beat the bears in the 1991 pick-one-stock tournament. Here are the stocks our contestants are betting on for 1992.

Pick just one

By Steven Ramos and Warren Midgett

OUR 1991 stock picking contest came out like the market: The bulls won, the bears were routed. The ten bullish stock selections were up 50% over the last year versus just 11% for the Dow industrials. But pity the poor bears. They lost most of their fur. The short selections recommended by the five bears not only didn't go down, they went up, gaining 30%.

Here's how our pick-just-one contest works. If your pick does well, you are invited back; if not, not. The six bulls who beat the market were invited back again; only one bear was.

Our first-place bull is Van Brady, a partner in Presidio Management. His choice last year, Healthdyne, gained 165%. This year Brady is defending his title with EMC, a manufacturer of disk storage systems for midrange and mainframe computers. Despite sales of $171 million in 1990, this company seems to be mostly overlooked by computer analysts.

Byron Sanders, editor of *The Speculator*, a Sarasota, Fla.-based newsletter that specializes in stocks under $20, picked Omega Health Systems and saw it go up 133%. This year Sanders offers another health care stock: LaserSight. Sanders says a new solid-state laser developed by this firm will supplant the excimer laser now being tested for corneal sculpting. According to Sanders, the new laser will probably be cheaper and does not use hazardous gases.

John Granahan, president of an investment management firm in Waltham, Mass. that advises Vanguard's Explorer Fund, rode Telxon to a gain of 75%. This year Granahan likes ConferTech International, a manufacturer of sound-only teleconferencing systems—much cheaper, says Granahan, than the video alternative.

Stephen Timbers did well with MBIA, up 61%, but has decided to quit the contest while he's ahead.

John Tauer Jr. from Piper, Jaffray & Hopwood saw his stock, Philip Morris, climb 36%, and he's resubmitting it. "It's a stock you can get for a very low multiple, and we think the company can continue to grow at 20% a year for the next four or five years," Tauer says.

Mariola Haggar, a senior vice president of equity research at Kemper Securities Group, gained 32% with Baxter International; she's back with another health care stock, Biomet. This firm sells orthopedic products like hip and knee replacements. Isn't the stock a bit steep, at 67 times earnings? Haggar's justification: The company is at the same stage fast-growing U.S. Surgical was at three years ago. "They're branching out into markets for less invasive surgery, such as arthroscopy," she observes.

Now for our new bulls. Carlene Murphy, a comanager of the Strong Common Stock Fund, bets on First Brands, the maker of Glad plastic bags, Prestone antifreeze and STP automotive products. First Brands stock recently lost several points on news of an earnings decline. "They have earnings power in excess of $3 a share, and you're getting it for $24," she says. "The bad news is out."

With similar reasoning, Judith Aidoo, an investment banker in New

The bulls versus the bears

Name/affiliation	Stock	Price
Buy these		
Judith Aidoo/Aidoo Group	IBM	88⅝
Alan Bond/Bond, Procope Capital Management	CML Group	29⅜
Van Brady/Presidio Management	EMC	9⅝
John Granahan/Granahan Investment Management	ConferTech International	5¾
Mariola Haggar/Kemper Securities Group	Biomet	50¾
Nikos Monoyios/Guardian Life Insurance	Plains Resources	14
Carlene Murphy/Strong Common Stock Fund	First Brands	23⅝
Nicholas Reitenbach/Pinnacle Associates	Hong Kong & China Gas*	1 7/16
Byron Sanders/The Speculator	LaserSight	5¾
John Shaughnessy/Advest	Lifetime	22⅞
John Tauer Jr/Piper, Jaffray & Hopwood	Philip Morris	69⅝
Joseph Velli/Bank of New York	Medeva*	36¾
Short these		
Robert Doviak II/Doviak Partners	College Bound	21¼
Jonathan Epstein/Lehman Brothers	Staples	24¼
David Hines/Hines Mangement	Egghead	15½
Benjamin Kopin/Lynx Partners	Sequent Computer Systems	10⅞
Eric Kuby/Rodman Advisory Services	Home Depot	64½

Prices as of Dec. 12, 1991. *American Depositary Receipts.

If you could own only one stock in 1992, what should it be? Ten Wall Streeters, including two asked to recommend foreign stocks, answer that question. We also asked five bears to recommend overpriced stocks for shorting.

York City, picks IBM. "In looking at IBM's strong products, excellent service and marketing, one can clearly see that the market has overreacted by valuing this stock at roughly two-thirds its 52-week high," she says.

John Shaughnessy, director of research at Advest, picks Lifetime Corp., a provider of home health care services. Reason: "It's in a very attractive market, and the company should grow by about 20% a year for the next five years."

Alan Bond, chief investment officer of Bond, Procope Capital Management, chooses CML Group, maker of NordicTrack exercise machines. Don't worry about a slow 1991 holiday season here, he says: Plenty of spouses will decide that exercise is just what their mates need.

Nikos Monoyios, vice president of equity securities at Guardian Life Insurance, offers Plains Resources, an oil and gas producer that is losing money but finding oil. Monoyios says the stock has been depressed by a Louisiana oil well that was troubled by a loss of pressure. He thinks the problem is manageable, and the stock could easily recover to its previous high of 30¾, he says; that would be a double.

Both of the two foreign stocks recommended last year beat the benchmark, a Morgan Stanley index of non-U.S. stocks. The best performer was BSN, a French food manufacturer, selected by Nicholas Reitenbach, now director of international investment for Pinnacle Associates. BSN gained 14%, or more than twice as much as Bank for International Settlements. This time Reitenbach recommends a utility, Hong Kong & China Gas, available as American Depositary Receipts. The stock sells at 15 times what Reitenbach expects for 1991 earnings.

Newcomer Joseph Velli, a senior vice president at the Bank of New York, selects Medeva, a British drugmaker. Medeva makes

Gary Hallgren

some generic drugs and buys the patents and manufactures drugs developed by other firms.

The only short-seller we invited back for another round was Benjamin Kopin, now with Lynx Partners, a short-selling fund based in Chicago. Kopin's short pick, Wells Fargo, eked out a gain but underperformed the market. This time Kopin dumps on Sequent Computer Systems, which makes parallel-processor computers for transaction processing. "It's a high-cost producer getting squeezed from both ends of the market," he says—supercomputers from Cray Research and others at one end and workstations from Sun Microsystems and others at the low end.

Jonathan Epstein, an associate at Lehman Brothers, is one of our four new bears. Epstein is knocking office supply chain Staples, trading at an exuberant 173 times latest 12-month earnings, even as it confronts a flood of imitators.

David Hines, a money manager in Conway, Ark., comes in with a third candidate for disaster in computers: Egghead, a retailer of PC software. "Egghead is like the mom-and-pop dime store. With the Wal-Marts of the computer industry coming in, they just will not be able to compete," says Hines.

Eric Kuby, chief investment officer of Rodman Advisory Services, is bearish on Home Depot, recently trading at 58 times trailing earnings. "People have gotten carried away with this company's growth prospects," says Kuby. "At its current price, the market is valuing Home Depot at just over $60 million per store, a figure that just seems unreasonable."

Robert Doviak II, with Dallas-based Doviak Partners, recommends shorting College Bound, a firm that offers test preparation classes to high school and college students. This is quite some stock, having climbed 11,200% in just two years. Current market valuation: $200 million—this for a company with $23 million in sales in its last fiscal year. Doviak says he's uncomfortable with the company's reported numbers. "It is only a matter of time before this bomb explodes," he says. ■

The bears lost

Name/affiliation	Stock	% change
Hot bulls		
Van Brady/Presidio Management	Healthdyne	165%
Byron Sanders/The Speculator	Omega Health Systems	133
John Granahan/Granahan Investment Mgmt	Telxon	75
Stephen Timbers/Kemper Financial Svcs	MBIA	61
John Tauer Jr/Piper, Jaffray & Hopwood	Philip Morris	36
Mariola Haggar/Kemper Securites Group	Baxter Intl	32
Dwight Pike/Knights of Columbus	Avery Dennison	7
Thomas Bailey/Janus Capital	Mid-American Waste Sys	2
Brenda Lee Landry/Morgan Stanley	Procter & Gamble	–4
Steven Neamtz/Investment Trust of Boston Fund	Blockbuster Ent	–9
Nicholas Reitenbach/Pinnacle Associates	BSN*	14
Jean-Marie Eveillard/SoGen International Fund	Bank for Intl Settlements	6
Cold bears		
Benjamin Kopin/Lynx Partners	Wells Fargo Bank	7
Joseph Barthel/Hopper Soliday	Marriott	13
Michael Murphy/Overpriced Stock Service	Chase Manhattan	35
Alan Gains/Gaines, Berland	Panhandle Eastern	43
Malcolm Lowenthal/Wertheim Schroder	McDonnell Douglas	53

Closing prices as of Dec. 12, 1991. *American Depositary Receipts.

Short-sale recommendations are supposed to go down, but in last year's bull market the five bears above gained an average 30%. The bulls were up 50%; the Dow, 11%.

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In other words, an engine that's very efficie very powerful, and as a result of these qualities, ve capable when it comes to propelling you forward.

Its impressive horsepower and torque come fro

HE USE OF ANOTHER 24 VALVES?

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Put away those ballpoints! It's time to get serious about what you write with. How about a $345 fountain pen?

Pen wars

WHENEVER Harold Rosenberg goes anywhere, he tucks two Waterman pens into his jacket pocket. One is to write with, the other to give away. Which is what the Waterman sales vice president did when he bumped into Barbara Walters signing autographs with (gasp) an ordinary ballpoint at a Barry Manilow concert. Ditto boxer George Foreman and artist Leroy Neiman.

Never mind that none of these luminaries is noted for prose style. In a world where fancy fountain pens are reverently referred to as "writing instruments," getting your pen into *any* prestigious signing hand counts for plenty. "We probably give hundreds of pens away every year," says Rosenberg. So do Montblanc and Parker.

This year, expect to see a lot of writing instruments changing hands. The fountain pen market is hot, and promises to get hotter. Like wearing a prestige watch, carrying and publicly wielding a prestige fountain pen has become an "in" thing. Wholesale sales rose 16% last year to $79 million—roughly double what they were in 1986.

The reemergence of fountain pens as "power batons," as they are sometimes called, is a relatively new phenomenon. After World War II, ballpoint pens swept fountain pens from the marketplace. Until the mid-1980s, fountain pens were viewed as the dinosaurs of the pen world—leaky, cumbersome and requiring frequent refilling.

But in a society where people search for subtle ways to show their taste and distinguish themselves from the unwashed, fountain pens have made a comeback. Also, pen technology has improved. No longer is it necessary to deal with ink bottles and messy refilling; just replace the cartridge when you run out of ink.

"If you have to wear a blue suit every day, what are you going to do?" says Jac Zagoory, who owns the fancy Rebecca Moss pen store in New York. "In the Eighties you bought a watch. Now you buy a fountain pen. The last thing you want to do when you walk into a boardroom is click your ballpoint. Clicking is out."

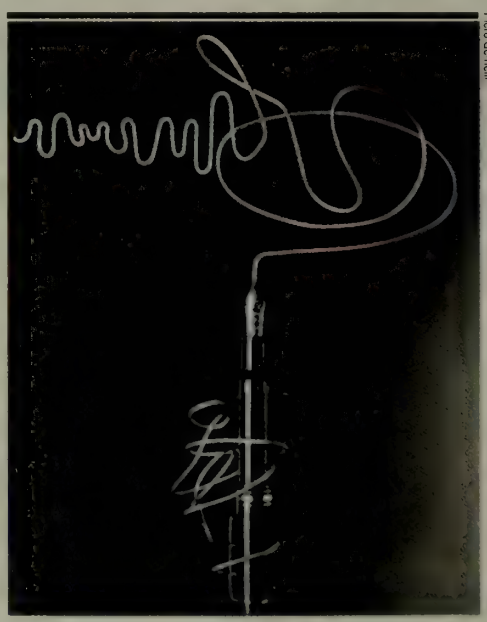
What's in is taking your time: carefully unscrewing the cap and putting it on the end of the pen before you start writing. "People have to wait for you," says Zagoory. Indeed, in the 1990s fountain pens offer a beguiling combination of homespun utility, quiet glamour and fashionable nostalgia. They are status symbols to be sure, but they suggest sobriety and sound judgment rather than fast-lane thrills and easy money.

"Once upon a time, it was fashionable to send typewritten notes—it meant you could afford a secretary," adds William Brown, general manager of Montblanc. "Now handwritten notes stand out—it means you didn't select form letter number six from the word processor."

Not surprisingly, penmakers are capitalizing on the trend by bringing out expensive, top-of-the-line models. A.T. Cross, long known for its prestigious ballpoints, is breaking into the swankiest part of the fountain pen market with its Signature line ($250 and up). Its ads capitalize on the nostalgia factor, featuring a paean to the childhood friendship of two business partners—"My friend, the bookworm from Hoboken," reads the headline.

Waterman's advertisements are apt

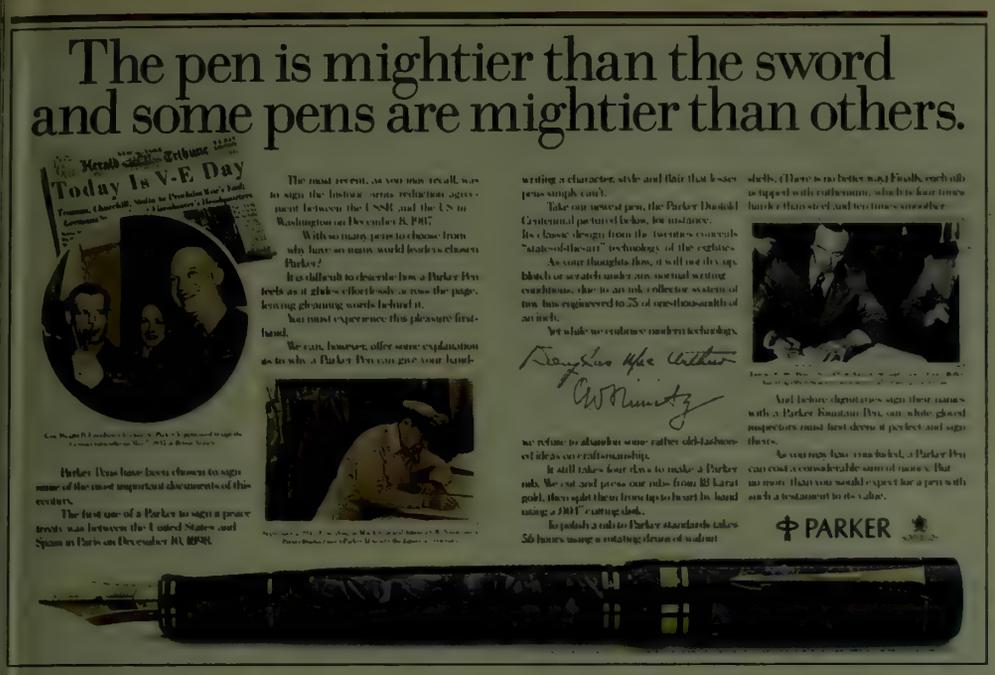
Hans Hansen


Piero Gemelli

John Claridge

Photos commissioned by Montblanc to celebrate its "writing instruments"

What fancy watches were to the Eighties, fountain pens may be to the Nineties.



Ads for Parker, Waterman and Cross
To push their pens, manufacturers draw heavily on eternal verities like friendship and peacemaking.

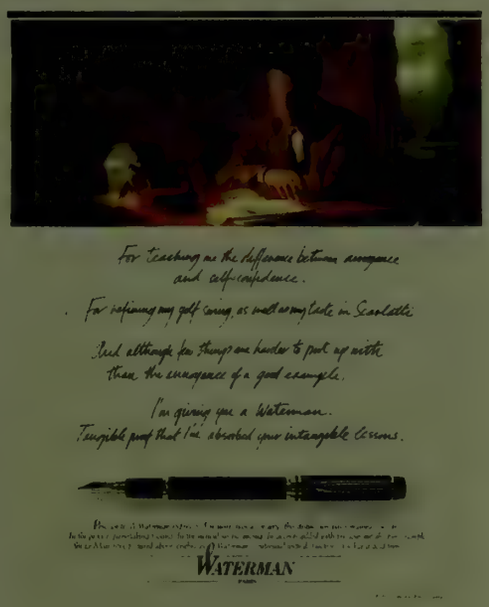
to be similarly emotional. A young man writes to his mentor in stolid script: "For teaching me the difference between arrogance and self-confidence . . . I'm giving you a Waterman."

None of this comes cheap, of course. Parker spent $4.4 million on advertising in 1990, while Montblanc, Waterman and Cross spent roughly $2.5 million each.

Parker Pen goes heavy on history. Its ad for the Duofold, a replica of its classic 1920s model, uses news photos showing Dwight Eisenhower and Douglas MacArthur using Parker fountain pens to sign the German and Japanese surrender documents. Parker's longstanding ties to the White House and the State Department date back to the Spanish-American War—concluded with a Parker—and give it a virtual lock on the treaty business. That carries an awful lot of weight with pen fanciers.

"We tried to get into the government, but Parker's got them all signed up," complains Russell Boss, president and chief operating officer of Cross. Cross gets involved with business seminars so that it can get its writing instruments into the hands of chief executives, if not commanders in chief. "We figure that everyone will want to use what the boss is using," says Boss.

The leader in the upper reaches of the pen market right now is Montblanc, which is estimated to sell about half of all pens costing more than



$100. Its classic ball pen costs $125, but in the corridors of power, Montblanc's hefty black Meisterstück model 149—which sells for a hefty $345—is the biggest stick.

Among the German company's promotional gimmicks: a road show that sets up in cities and invites all comers to pen a sentence in what Montblanc is calling the Great American Novel—with a Montblanc pen, of course. The company is also running an exhibit, at the Art Directors Club in Manhattan, of arty photos of the Montblanc pen by celebrated photographers. And it has teamed up with the renowned French crystal manufacturer Lalique to produce a $3,000 desk set.

Montblanc doesn't really expect to sell very many of the Laliques—only 1,000 desk sets are even available in the U.S.—but they confer an aura of opulence on the entire Montblanc line, even its cheaper ballpoints. Montblanc's estimated 50% share of the prestige pen market leaves it with a comfortable lead over second-place Parker, which has around a 25% share.

With sales booming, so are expectations. Montblanc estimates that only 10% of households with income over $50,000 use a fountain pen every day, and fountain pens still account for less than 5% of all pen and mechanical pencil sales. "The real thrust is getting people to try writing with a fountain pen for the first time," says Montblanc's Brown.

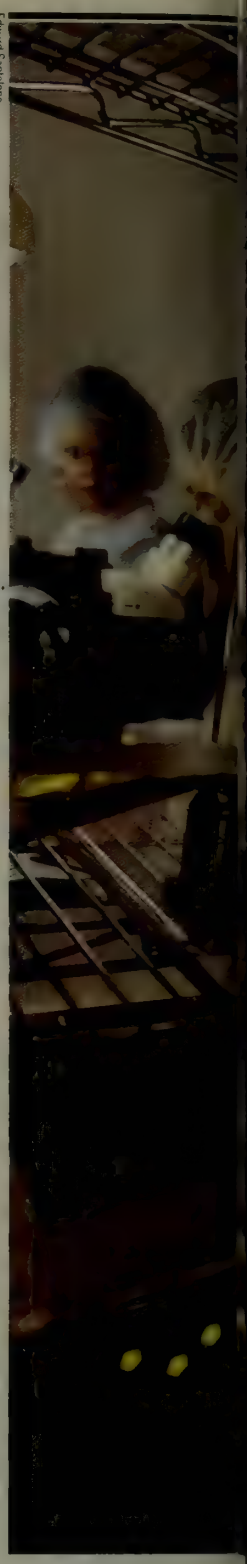
Once hooked, says pen dealer Zagoory, people can go through as many as eight pens a year, buying different ones for different wardrobes or for signing different documents. If you get the habit as bad as Donald Drapkin has it, the sky's the limit. The Revlon Group vice chairman recently bought a custom-made wood fountain pen with gold filigree and a sapphire cabochon—the finial on top of the pen's cap. Cost: $4,500.

Okay, so maybe the 1990s aren't all that austere. –J.L.

When is a gamble not a gamble? When it is riskier not to take it than to take it. That's why Circon ran deep into debt to swallow a company four times its size.

Betting the farm

By James Cook



Edward Santelone

President Richard Auhll at Circon Corp.'s Stamford, Conn. surgical instrument factory **Circon gambled that one day all surgery was going to be performed with endoscopes.**

IT WASN'T a big acquisition as acquisitions went in 1986, but when Santa Barbara's Circon Corp. acquired the ACMI division of American Hospital Supply Corp., Circon's boss, Richard A. Auhll, was betting the company. If he won the bet, Circon was almost certain to boom. If it didn't, goodbye Circon.

This wasn't a case of betting OPM—other people's money. Auhll owned 28% of the company and had lent Circon $2 million of his own money to do the ACMI deal.

An aerospace engineer and Harvard M.B.A. by training, Auhll, 50, had settled in at Circon, then a subsidiary of Applied Magnetics, in 1969. But wanting to run his own show, he engineered a leveraged buyout of Circon in 1977 and took the company public in 1983. Circon started out making circuit board components, but one thing led to another, and Auhll began branching out into miniature electronic tools, miniature surgical instruments and finally into the miniature color video cameras that became the bedrock of the company.

Circon's video cameras were used in conjunction with endoscopes—tubular optical devices that, inserted into the natural orifices of the body or into small ¼-inch or ⅛-inch incisions, enable a doctor to examine the interior of the body for diagnostic or surgical purposes. High-intensity light is funneled down this tube, and microscope-style optical lenses carry the image back to a television monitor. With the use of an endoscope, a surgeon can operate within the body without having to cut through the abdominal muscles to take out a gall bladder or without removing a rib to work on a lung.

For some years, Circon lacked any direct sales force. Its products were distributed by other manufacturers like Germany's Karl Storz-Endoskop Beteiligungsgesellschaft and Bristol-Myers Squibb's Zimmer division, either as products in themselves or as part of endoscopic systems. By the mid-Eighties Auhll realized that if Circon was going to go anywhere it would have to handle its own distribution and move into endoscope manufacturing itself. In 1985 Auhll set up his own sales organization and in 1986 acquired ACMI, the leading maker of urological endoscopes.

"It was a major strategic move," Auhll says. "ACMI had the market share, the technology, the manufacturing resources, the customer base. We knew we'd have a gem."

But a somewhat flawed gem. ACMI was four times Circon's size, and its product line was rapidly growing obsolete. The company was losing $5.3 million a year. No matter. Auhll plunged ahead.

He paid $28.5 million for ACMI, half of it borrowed, and that added $2.5 million a year in interest charges to ACMI's existing losses.

Auhll's original plan was to replace all that debt with equity, but the market turned sour, and Auhll had to settle for $9 million in convertible debentures—meaning he was still saddled with heavy interest costs. He says: "We had this 800-pound gorilla on our back and we had to carry it for five years."

But this was no wild gamble. Auhll was betting on what he was certain would happen: "We believed that sooner or later all surgery would be performed using endoscopes, and that was why we were willing to bet the farm. At the time."

Certainly the gadgets had a lot going for them. A conventional gall bladder operation might cost $10,000 and more, and require five to eight days in the hospital and six weeks for full recovery. But with minimally invasive surgery, such an operation might cost $5,000, cut the hospi-

tal stay to 24 hours and get the patient back to work within three days. Older surgeons didn't take to operating by television any more than other oldsters took to using computers, but their patients did, and their demands have launched what Auhll calls a megatrend.

Such surgery has been the norm for decades in operating on joints, like athletes' knees, and so, increasingly, have urological procedures involving prostates, bladders and kidneys. Today minimally invasive surgical techniques are taking over everywhere—in the abdominal region in everything from colon cancer to gall bladders, as an alternative to a hysterectomy, in which case the surgeon cauterizes the uterus without removing it, and even within the rib cage for lung surgery. "It's all happening simultaneously," Auhll says.

According to Needham & Co. analyst Samuel Navarro, the market for endoscopic equipment and accessories should nearly double, to $1.3 billion, between now and 1994.

That's now. But Auhll's bet didn't look so certain of payback in the 1980s. In three years Circon piled up over $4 million in net losses while Auhll reengineered 75% of ACMI's aging product line.

Auhll's shrewd gamble paid off. In 1989 Circon finally broke into the black. So far in 1991, nine months' earnings are up 53% on a 37% increase in sales, and Auhll has no doubt that sales for the full year will hit $68 million, up from nearly $50 million two years ago, $21 million at the time of the merger in 1986. This year earnings will probably hit $3.5 million, roughly 50 cents a share, up from the 6 cents Circon earned in 1989. Auhll thinks the company's business is now growing around 30% annually. The stock recently sold at around 27, making Auhll's stake worth $40 million.

As the business turned rapidly around, Auhll set about putting the company's financial house in order. In April 1990 he was able to redeem that $9 million in convertible debentures through a refinancing, since the stock sold below the conversion price at the time. Last June he sold 1 million shares of common at 16 and retired virtually all of Circon's debt. Last month he sold another 1 million shares at 25 to provide seed money for the acquisitions and startups Auhll feels Circon needs to round out its product line.

Richard Auhll isn't relaxing—nor can he. Medical technology is changing, and alternative techniques both surgical and pharmaceutical could again transform the market. But Auhll is determined to be ready if change occurs. He has committed a good 10% of sales—twice the industry average—to research and development.

Of that 1986 merger, he now muses: "How did I have the nerve to do that?" But then he answers his own question: "I try to run the company the same way I play chess. I don't necessarily predict every move my opponent's going to make. Instead I try to build a strategic position that will protect me against the negative things that come down." Put in those terms, it would have been riskier not to take that 1986 gamble than to take it. ■

Pathfinder

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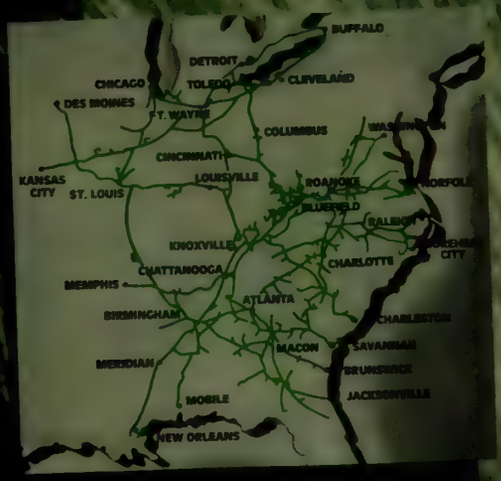

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Annual Report on American Industry

By Steve Kichen

Lean, mean, smart. Qualities of the 21 companies profiled in our 44th Annual Report on American Industry. Not only are these firms setting the pace for their industries in the midst of an economic slump, but they're well positioned to prosper once recovery kicks in.

Their stories are instructive in an otherwise sobering report of how corporate America is coping with the weak economy. Companies big and small are slashing employment. Defense contractors face an uncertain future. Energy companies face depressed prices. The capital goods business is still weak. The airline industry remains in a tailspin. Consumers just aren't spending. Not even the lowest mortgage rates in 15 years have revived housing.

Yet—as always—there were companies that coped well with adversity. FORBES has identified one standout in each of the 21 industries covered in this survey. How did we pick them? FORBES statisticians screened more than 1,000 companies to sort out those with the highest profits per employee, the highest sales per employee, the best return on equity and the lowest debt levels.

Using these lists as guidelines, FORBES writers then applied some subjective criteria to come up with a more well-rounded measure of efficient operation: Does the company really understand what its customers want and need? Is it getting the most out of its employees—not just in terms of productivity but in carrying out creative organizational changes to make decision making more decentralized. Finally, does the company execute what it sets out to do?

Some standouts: King World Productions, the leading distributor of first-run syndication television. It has fewer than 500 employees but earned nearly as much last year as the ABC television network. Jacobs Engineering, a construction company with a staggering 23% return on equity, thrives on a "faster, better, cheaper" quality improvement program that sets minimum standards for every job. Then there is the sage advice from Joseph Williams, chairman of Williams Cos., which in recent years has jettisoned some businesses it had been in for years. "Never fall in love with your assets," he says."If you do, you're a goner."

There wasn't much to love last year when it came to corporate performance. Latest 12-month sales growth for the median firm in this survey fell to 3.7%, compared with 6.6% one year earlier. That barely kept pace with inflation. The bottom line was this: Big corporate America had no real growth last year. Profits? Even worse. The median 12-month return on equity figure fell from 12.1% to 9.9%.

Day after day, the newspapers chronicled the inevitable consequences. IBM shed 10,000 workers and planned to cut another 20,000 this year. GM is expected to announce a new round of multibillion-dollar writeoffs and plant closings. Late in 1991 Pan Am and Midway shut down and another 12,500 people lost their jobs.

It's hard to detect a silver lining in these black clouds, but there is one: In the 1981-82 recession, drastic cutbacks in employment and factory closings helped create a leaner, smarter, more efficient corporate sector. When the economy recovered, profits came roaring back. There is every reason to expect that the process will repeat in the early 1990s.

In these days of global business, it is getting harder and harder to draw a clear line between U.S. and foreign companies. This year we added another 15 international giants. For example, we list Honda as the most efficient "American" carmaker. No, this isn't a mistake. Half of Honda's $35 billion in sales comes from the U.S.; 14,300 Americans work here for Honda, assembling 450,000 cars a year. And Honda's Accord is the bestselling car in America. Welcome to the global economy.

How we calculate the results

Company	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital	Debt/ capital	Sales		Earnings per share				
	5-year average %	latest 12 mos %	latest 12 mos %	%	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %

Profitability

Return on equity is calculated by taking primary earnings per share and dividing it by common shareholders' equity at the beginning of the year. FORBES calculates common shareholders' equity by assuming the conversion of all convertible preferred stock. For nonconvertible preferred stock, their liquidation value is subtracted from total equity.

Net income and earnings per share include gains or losses from discontinued operations but exclude extraordinary items.

Five-year average return on equity is calculated with a modified version of the sum-of-the-years digits method. This technique attaches a greater importance to the most recent results. Negative earnings are included in the calculation—provided the company has positive equity for the period in question. Companies are penalized for years in which they have a negative equity. If a company shows return on equity exceeding 100% in a given year, our computers automatically scale back this value to 100%.

For return on capital, we divide a firm's total capitalization into the sum of these three items: aftertax profits, the amount remaining if the interest paid on long-term debt were taxed, and minority interest. Most companies (excluding electrical utilities) do not report interest expense on long-term debt. In these cases FORBES estimates this figure for the latest 12-month reporting period. We assume a 34% corporate tax rate to compute the tax break derived from the interest expense. We define total capitalization as the sum of long-term debt, common and preferred equity, deferred taxes arising from depreciation accounting, investment tax credits and minority interest in consolidated subsidiaries.

Growth rates

We use the least-squares method to calculate sales and earnings growth rates. This equation adjusts for sharp fluctuations and comes up with a result that closely reflects the average rate of growth. Example: During a four-year period a company's earnings go from 50 cents to $1.25, then to $2.50 and finally $2.75 in the last year. That's a 150% jump from the first year to the second year, 100% in the third, and 10% in the fourth year. Least squares says that, on average, earnings grew by 78.7% (0.50 x 1.787 x 1.787 x 1.787). If you try to perform this calculation yourself, you will come up with $2.85 rather than $2.75 in the final year. That's because the regression equation finds an answer that best fits the year-to-year change for all four years, not just between the first and last year.

The least-squares equation has one major limitation: It does not work with negative values. If earnings were negative at the start of the period, we calculated the growth rate for a shorter period, beginning with the first positive year. If a company lost money during one year in the middle of the measuring period, we dropped the year from our calculation and measured the growth rate over the remaining positive periods. Our assumption: that a brief loss should not dictate the direction of a company's long-term performance. However, if the company lost money in more than one year, a five-year growth rate is not calculated and the result is listed as not meaningful (NM).

We also had our computer check all growth rates with a comparison measurement to see if the earnings pattern made sense. Here's an exaggerated example: Over a four-year period a firm earned $10, 25 cents, $18 and 50 cents a share. The resulting growth rate, –37.6%, does a miserable job of describing the year-to-year change in the company's earnings. For such companies with wildly fluctuating profits, we marked the growth rates as not meaningful.

Time periods

The five-year growth rates shown in this issue require six years' worth of data. These rates are based on latest fiscal year-end results. If a growth rate covers a period of less than five years, we marked it with a footnote. When the range of available data is less than four years, the growth rate is marked as not available (NA).

Latest 12-month comparisons are between the most recent four quarters and the same four quarters in the previous year. Sales, net income and profit margins are measured over the latest 12 months. Debt as a percentage of total capital is based on the latest balance sheet.

Definitions

FORBES defines sales as net sales plus other operating revenue. Bank revenues consist of total interest income plus other income. For insurance companies, sales include premium income plus net investment and other income. Debt as a percentage of capital measures long-term debt, including capitalized leases, divided by total capitalization.

We calculate medians by listing the companies in rank order and selecting the middle company's value. When there is an even number of companies, we arrive at the median by averaging the data on the two middle firms. The all-industry median is calculated by taking the median of 21 individual industry medians. Companies marked with an NA are excluded from our median calculations.

Preparing for even more draconian cuts in defense spending, suppliers are cutting jobs and costs.

By Howard Banks

Defense contractors are finally feeling the effects of reduced spending. Employment in this sector dropped 8% in 1991, to 1.2 million workers.

Tougher cuts are ahead. The Pentagon is working on "Base Force II," a program to reduce its budget by another $30 billion by 1995. This follows an almost 20%, or nearly $50 billion, cut already in progress. Spending on procurement and research and development in 1995 is expected to be $91 billion, down 45% in real (1992 dollars) terms from its 1985 peak.

Production of General Dynamics' F-16 fighter has been cut to 48 aircraft for 1992. That's down from the 72 jets that were originally planned. And, except for replacing the handful of planes lost in Desert Storm, McDonnell Doug-

Working both sides of the swings

MANY companies have talked about preparing for the downturn in defense spending, but few have made as much progress as Textron Inc. Five years ago military business accounted for around 60% of its Bell Helicopter sales and closer to 70% of its Textron Aerostructures division's sales. Today the military-civil split has in each case almost exactly reversed. That's important, because the two divisions combined represent 46% of the conglomerate's $7.9 billion sales.

"We decided in the early 1980s that there had to be a better balance between military and civil. In the case of helicopters, the world market is not big enough to be in just one part or the other," says Webb F. Joiner, president of Bell Helicopter Textron Inc.

The opportunity to separate military and civilian operations came in the early 1980s when the Canadian government asked for bids to create a commercial helicopter business. Textron won and set up shop in 1984 near Montreal's Mirabel airport.

The Canadian government invested $181 million of the $225 million cost. Bell currently has a third of the total world civilian chopper market and employs 1,300 workers in Canada.

The Canadian connection runs pretty deep. Bell gets access to Canadian government export finance as well as promotion help from that country's embassies around the world (U.S. embassies are reluctant to get involved this way). Canada is also helping Bell move into formerly communist Central European markets.

Canada has, for example, put up 25% of the estimated $49 million development cost of Bell's new six-to-ten-passenger model 230. But this deal has an added twist. Japan's Mitsui (U.S.A.) Inc. has put up an additional unspecified amount of working capital for the project and will take 20 of the first 50 choppers.

Textron also forged international links with its Aerostructures division. It became a risk-sharing subcontractor to British Aerospace on two projects.

Textron's Webb Joiner
Switching to civil choppers.

The first is for the wing structure for BAe's 146 short-range jet. The second, an approximately $50 million investment, gave Textron the contract to build a major part of the wing for the Airbus A330 and A340.

New ventures bring risk, but Joiner is confident that Textron can handle the changes: "We are now well set to cope with the inevitable up and down swings in our aerospace businesses, whichever way it goes in future."

–H.B.

las has virtually stopped making F-15s. Manufacturers of military jet engines will also feel the pinch: General Electric expects to build as few as 240 engines in 1995, down from 610 engines in 1985. United Technologies' Pratt & Whitney division faces the same kind of cutback.

In 1991 commercial jet deliveries hit a record $36.4 billion, a 17% increase over 1990. But this was not enough to offset the decline in military business: Return on equity of aerospace firms sagged to 9.4%, down from 13% in 1990. Profits, however, are expected to be up 3% in 1991, to $4.6 billion, according to the Aerospace Industries Association, thanks to cost-cutting and layoffs.

New orders for airliners are getting harder to find. In the fall Boeing will cut production of its 737 from 21 a month to 17. Firm backlogs are also declining. Boeing's $98 billion announced order book is down 5% from 1990; McDonnell Douglas' is down 12%, to $22.4 billion. When Frank Shrontz, Boeing's chairman, recently said that Boeing would probably lose orders if the economy didn't pick up soon, Boeing's stock dropped 3⅛ points in one day, even though the Seattle-based company has yet to have any cancelations.

There are still a few juicy defense projects. Spending on space is expected to reach $31.8 billion in 1992, up from $28.9 billion in 1990. In 1992 the Strategic Defense Initiative will soak up about $4 billion, including increased spending on surveillance satellites and a limited ground-based antiballistic-missile system. This will benefit companies such as Lockheed, Martin Marietta, Hughes Aircraft and Rockwell International. ■

Aerospace & defense

Company	Profitability: Return on equity 5-year average %	Return on equity latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	Growth: Sales 5-year average %	Sales latest 12 mos %	Earnings per share 5-year average %	Earnings per share latest 12 mos %	Sales latest 12 mos $mil	Net income latest 12 mos $mil	Profit margin latest 12 mos %
Teledyne	45.8	def	def	50.6	1.8	–5.2	NM	P-D	3,269	–53	def
Martin Marietta	27.6	20.9	15.6	22.4	6.9	–3.7	11.3	–2.1	5,963	326	5.5
Raytheon	24.2	20.2	20.1	1.3	7.3	2.7	14.1	4.5	9,301	578	6.2
GenCorp	22.9	14.4	11.7	63.3	–10.6	6.6	15.3	3.4	1,919	29	1.5
General Electric	19.9	20.4	11.7	47.7	11.3	4.6	15.6	6.8	59,938	4,411	7.4
Precision Castparts	19.8	13.0	11.6	8.0	19.5	14.8	18.8	16.4	568	35	6.2
Teleflex	18.9	15.3	11.5	31.9	20.1	8.3	16.4	2.5	459	29	6.4
Rockwell Intl	18.1	14.7	11.8	13.1	NM	–3.7	4.1	0.4	11,927	601	5.0
Loral	17.2	14.6	9.9	36.2	23.8	99.1	10.1	18.6	2,829	103	3.7
E-Systems	16.3	16.3	14.3	10.0	14.0	8.6	12.6	23.0	1,921	105	5.5
Boeing	15.7	21.2	19.9	3.8	13.0	12.4	14.5	29.9	28,576	1,482	5.2
Lockheed	15.4	10.9	8.7	30.4	NM	0.0	NM	142.4	10,019	304	3.0
Thiokol	15.2	18.2	10.8	32.0	7.2	3.8	NM	22.7	1,252	55	4.4
Allied-Signal	14.9	def	def	37.7	4.7	–2.3	NM	P-D	11,970	–281	def
Fairchild	14.8	def	4.5	66.9	26.9	–22.8	NM	P-D	513	–9	def
United Technologies	13.8	6.0	5.9	25.9	7.4	0.2	21.9	–54.2	21,059	372	1.8
Sundstrand	12.5	15.0	12.5	35.9	4.4	3.5	18.0	–13.2	1,655	94	5.7
Sequa	12.2	def	1.5	52.3	33.0	–13.0	–29.6	P-D	1,914	–15	def
Textron	12.0	10.6	7.7	69.9	7.0	2.2	0.8	7.7	7,969	294	3.7
Litton Industries	11.5	5.5	5.6	40.3	3.5	3.5	NM	–56.8	5,351	65	1.2
Kaman	11.4	9.4	7.6	35.2	8.9	–3.3	–7.8	–6.5	791	18	2.3
Harsco	10.8	15.8	13.3	28.5	6.8	17.9	NM	41.4	1,862	69	3.7
Grumman	8.4	10.0	8.4	42.6	4.3	6.2	NM	10.0	3,967	92	2.3
McDonnell Douglas	8.0	6.0	5.7	53.0	6.7	8.4	–15.4	–42.3	17,803	211	1.2
Hexcel	7.1	2.5	3.5	45.5	10.9	0.1	–18.7	500.0+	387	3	0.9
UNC	7.0	4.9	5.4	57.0	NM	–7.5	NM	D-P	356	7	1.9
Northrop	6.9	16.6	11.7	32.8	NM	6.7	NM	28.0	5,648	172	3.1
Rohr Industries	6.1	7.4	6.4	52.3	17.2	28.4	–5.0	Z-P	1,385	31	2.2
Oshkosh Truck	6.0	0.7	0.9	7.4	2.2	–7.4	NM	D-P	420	1	0.2
SPS Technologies	3.4	def	def	28.3	8.3	–7.4	NM	P-D	396	–5	def
GM Hughes Electronics	2.9	1.2	5.5	3.2	3.8	–2.2	8.8	–38.0	11,232	445	4.0
General Dynamics	2.8	def	def	31.0	4.3	–11.7	NM	P-D	9,016	–191	def
Wyman-Gordon	1.6	def	0.6	26.3	NM	–1.2	NM	D-D	387	–1	def
Avondale Industries	def	def	def	18.9	11.3	7.9	NM	D-D	798	–31	def
Talley Industries	def	def	def	71.1	3.3	–17.3	NM	D-D	324	–61	def
Alliant Techsystems	NA	31.1	18.9	43.2	3.4*	3.4	NA	NA	1,265	42	3.3
ESCO Electronics	NA	def	def	3.1	–1.8	–10.6	NA	D-D	481	–67	def
Industry medians	12.2	9.4	7.6	32.8	6.8	2.2	–18.7	1.5	1,919	42	2.3
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Thanks to corporate penny-pinching, the service industry experienced a lot of pain and not much gain last year.

By Reed Abelson

Forget service with a smile. The companies that provide temporary help, clean offices and haul trash have been gritting their teeth ever since the decade began. After experiencing double-digit earnings-per-share growth for much of the 1980s, these companies saw their profits fall an average of 10.1% in the last 12 months, following a 13% decline for the previous four quarters.

The weak economy was largely responsible for this poor performance. Businesses simply cut back on the number of pens and paper clips they ordered and put off renovations. Even Minnesota Mining & Manufacturing, the creative $13 billion (1990 sales) maker of everything from Post-it note pads to medical diagnostic imagers, is expected to show a profit decline in 1991, the first decline since 1985.

Conventional wisdom says that companies make heavy use of temporary employees during a recession in order to keep their payrolls lean and save on benefits. This wasn't the case for personnel firms like Kelly Services, Olsten Corp. and Adia Services. In the last 12 months the group fell victim to a white-collar recession, and earnings fell by more than a third.

Browning-Ferris Industries, the Houston waste hauler, also had a hard time. Hurt by the recession (much of its business is in the Northeast), the company took a $156 million charge in its fourth quarter to meet new government regulations covering its 100 solid-waste landfills.

In contrast, First Financial Management, which pro-

Business services & supplies	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Business services											
Rollins	44.4	35.1	29.1	0.0	8.0	9.4	8.8	13.2	467	30	6.5
Kelly Services	29.6	13.5	13.6	0.0	10.6	–3.0	19.2	–36.1	1,417	46	3.2
Pinkerton's	26.4	23.1	14.2	36.3	26.9	3.6	34.5	5.3	610	11	1.8
Olsten	21.2	10.2	7.7	35.5	20.0	30.8	14.8	–36.5	789	10	1.3
Equifax	21.0	13.0	9.4	14.6	12.7	6.6	11.0	–23.1	1,083	49	4.5
Automatic Data	20.9	21.9	19.4	4.6	7.9	3.6	17.6	13.2	1,787	232	13.0
Safeguard Scientifics	19.9	14.8	9.5	47.0	59.7	34.2	21.0	–9.3	565	12	2.1
Wackenhut	17.2	20.1	12.0	51.8	11.8	10.6	7.9	14.5	561	8	1.4
First Financial Mgmt	15.5	14.2	11.7	30.0	102.2	22.2	43.9	23.7	1,478	89	6.0
Shared Medical Sys	15.4	14.0	12.9	2.0	4.0	9.7	–11.4	10.2	432	25	5.7
Adia Services	15.1	4.7	4.7	3.1	27.9	–1.8	21.0	–52.1	645	9	1.3
Computer Sciences	15.0	12.4	11.5	16.3	15.0	13.6	20.5	–1.7	1,834	66	3.6
General Motors EDS	14.5	9.8	22.2	10.1	10.8	15.3	20.9	11.9	6,626	541	8.2
Standex International	13.7	13.4	10.5	31.3	4.7	0.0	14.2	–10.9	474	19	4.1
AAR Corp	13.0	6.1	5.3	22.7	13.8	1.2	6.0	–54.4	458	12	2.5
PHH	12.3	11.8	9.3	69.1	16.5	0.7	NM	23.4	1,991	46	2.3
American Building	11.9	13.3	12.0	19.2	9.8	8.3	14.4	10.0	723	11	1.5
PS Group	5.7	def	def	47.3	–23.3	3.3	NM	D-D	285	–35	def
National Education	2.4	def	0.9	39.4	15.9	–0.8	NM	D-D	377	–2	def
Volt Info Sciences	0.8	def	3.5	51.9	5.1	–9.6	NM	P-D	464	–1	def
Medians	15.2	13.2	11.0	26.3	12.2	5.1	14.3	–5.5	628	16	2.4
Business supplies											
Deluxe	29.2	27.1	25.9	12.8	13.9	5.9	9.7	10.7	1,466	184	12.6
HON Industries	26.6	25.6	19.8	19.4	6.4	–7.4	13.8	13.7	608	34	5.6
Minn Mining & Mfg	22.1	17.9	17.0	4.6	11.0	5.5	16.4	–7.8	13,396	1,190	8.9
Alco Standard	19.1	15.6	12.9	36.2	3.2	10.4	15.1	2.0	4,756	118	2.5
Reynolds & Reynolds	17.8	17.1	8.5	31.7	6.3	0.7	NM	–7.4	599	22	3.8

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. P-Z: Profit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

The check is in the (electronic) mail

A LOT of companies pay lip service to the idea of efficiency, but Harold Haverty, the chief executive of Deluxe Corp., has had to do a lot more than talk. Deluxe's core business of printing checks ekes out just a percentage point or two of unit growth a year. And while the vision of a checkless society was premature, businesses and, to a lesser extent, consumers are increasingly using computers rather than paper to pay their bills.

It's under these conditions that Haverty has managed to achieve 10% average earnings-per-share growth for the last five years. In the last 12 months, earnings reached $184 million on revenues of $1.5 billion. The company's return on equity has averaged 29% over the last five years.

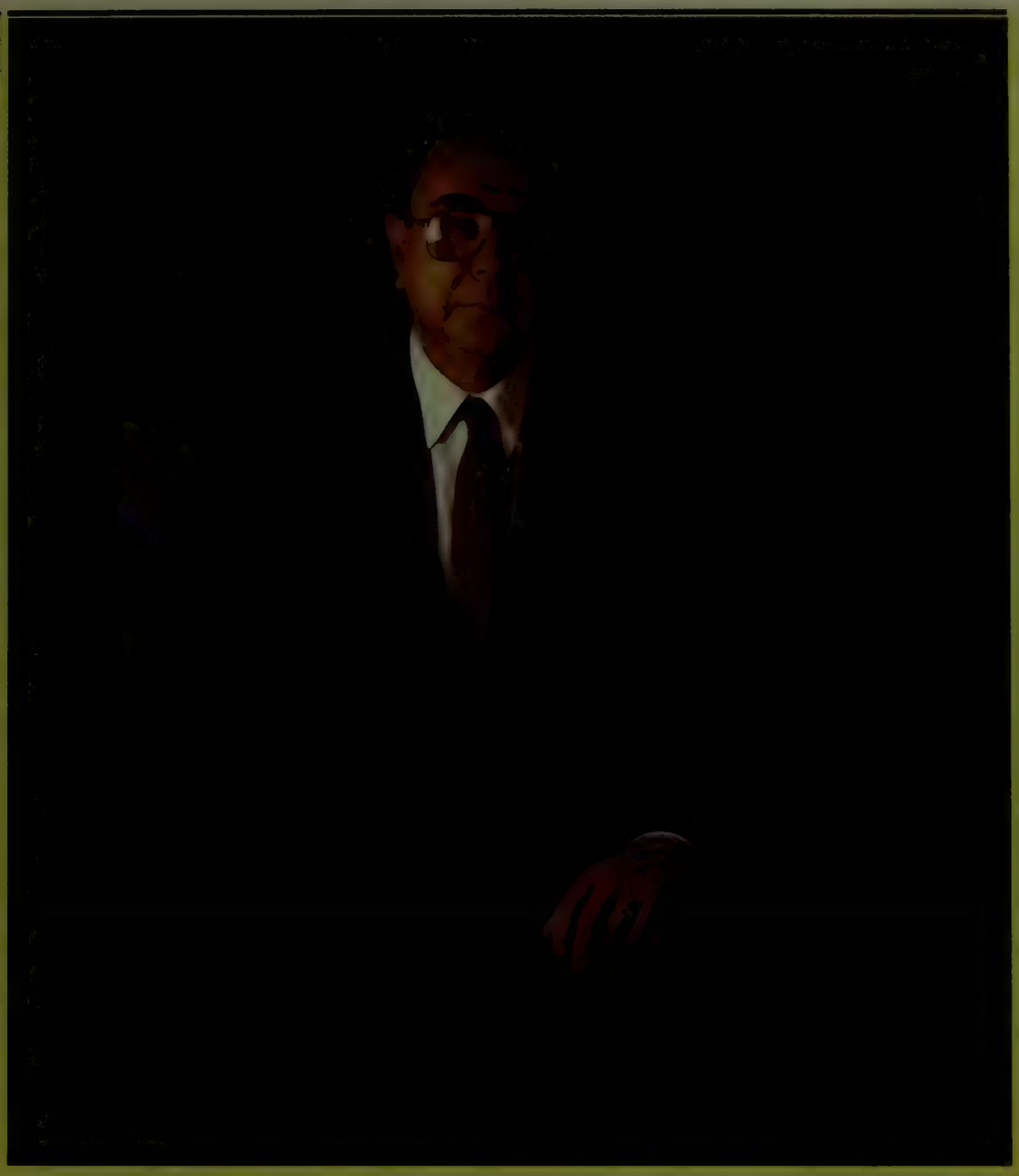
How has Haverty accomplished all this? The St. Paul, Minn. company prints checks for more than 22,000 banks and commands over half the $1.9 billion check-printing market, so there isn't much room to grow through acquisition. So Haverty has invested over $125 million since 1987 in the latest check-printing technology. When Deluxe couldn't buy a more efficient printing system from outside vendors, it developed its own. With over 60 printing facilities across the country, Deluxe can serve any customer. Over 95% of traditional checks can be printed and shipped within two days.

But Haverty hasn't just concentrated on squeezing the last drops of profit growth from his core business. Deluxe is now the largest third-party processor of electronic debit transactions, and many of its clients are the same banks that buy Deluxe checks. The data systems subsidiary also provides software and processes transactions for three of the five largest regional bank ATM networks. In addition, Deluxe has its fingers in the emerging point-of-sale and government benefits transfer markets. It was recently awarded a five-year, $34 million contract by New York State to develop an electronic system for its Medicaid program.

In its one big acquisition outside the funds transfer business, Deluxe bought a direct-mail company in 1987 that sells greeting cards, gift wrap and small gifts. The mail-order business has a list of over 9 million customers. What's the synergy here? Someday many of these people could be paying bills on home computers.

Deluxe still prints about 25 billion checks a year, but it is now using some of its excess capacity for printing short-run business forms. What happens if checkbooks eventually go the way of the buggy whip and the vacuum tube? Deluxe seems to be well prepared. –R.A.

Steve Niedorf



Deluxe Corp.'s Harold Haverty
Achieving double-digit profit growth in a mature market.

vides data processing to financial institutions, has a five-year earnings-per-share growth rate of 44%. First Financial has been gobbling up companies, including Georgia's largest thrift, which was purchased in 1989. JWP Inc., the technical services company, made its most aggressive acquisition to date: Businessland, the troubled computer retailer, for $100 million in November 1991. But the October 1990 merger that formed Avery Dennison Corp. led to a $99 million restructuring charge.

Another company that may have had its fill of mergers is Xerox, which finally unloaded some burdensome financial services businesses. It recently announced plans to lay off about 2,500 employees, which will result in a writeoff of $175 million in the fourth quarter. Pitney Bowes, which spent roughly $250 million in R&D in the last few years, is ready to debut a new line of postal equipment.

Automatic Data Processing, the largest U.S. independent computer services outfit, was able to continue posting double-digit earnings growth during the last 12 months. Merrill Lynch's Stephen McClellan thinks Automatic Data Processing and other computer service companies like Computer Sciences and EDS should benefit from the growing tendency of corporations to hire somebody else to take care of their data processing. Once the recession is over, corporate America will probably again look to all these companies for services and supplies. ■

Business services & supplies	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Pitney Bowes	17.8	18.1	11.5	34.1	12.2	4.8	6.6	103.4	3,293	289	8.8
Interface	17.3	5.6	5.9	56.3	44.2	–1.3	21.0	–56.4	601	11	1.9
Wallace Computer Svcs	15.4	12.5	11.2	5.7	8.9	2.3	8.4	–12.4	459	35	7.6
Comdisco	14.8	11.5	8.2	63.5	20.1	12.4	NM	–14.8	2,174	69	3.2
Herman Miller	13.2	1.9	2.7	14.6	11.6	–6.8	–11.5	–87.9	831	6	0.7
Moore Corp	12.8	6.2	5.8	2.8	6.8	–9.5	NM	–38.9	2,547	95	3.8
Standard Register	12.2	5.7	5.3	9.9	9.4	–2.3	–6.0	–52.3	698	18	2.5
Nashua	11.9	5.5	5.8	18.6	NM	–7.4	7.3	–57.4	538	7	1.4
Mine Safety Appliance	11.3	8.5	7.5	7.4	3.4	8.6	6.5	–17.3	495	24	4.8
United Stationers	10.3	5.6	5.4	26.8	9.2	–4.2	–6.9	–22.9	951	10	1.0
Diebold	9.2	8.0	8.4	0.5	3.3	3.0	NM	5.5	489	30	6.2
Avery Dennison	9.1	0.0	1.1	21.9	10.3	0.1	21.7	P-Z	2,568	0	def
Xerox	7.6	8.5	8.8	41.0	9.3	1.9	–10.1	289.3	17,968	598	3.3
AM International	def	1.2	5.7	31.6	NM	–2.1	NM	D-P	858	9	1.0
Anacomp	def	NE	13.5	104.1	39.9	–2.6	NM	500.0+	635	18	2.9
Savin	def	def	def	124.5	–2.2	–8.3	NM	D-D	335	–31	def
Smith Corona	NA	23.3	16.1	25.3	7.2	–19.7	NA	–26.0	352	17	4.8
Medians	12.8	8.2	8.3	23.6	9.1	–0.6	–6.0	–13.6	765	23	3.3
Industrial services											
JWP	25.7	15.7	10.5	43.0	78.5	23.1	41.2	5.1	3,212	60	1.9
Safety-Kleen	22.0	13.5	10.8	30.8	22.2	20.8	16.8	4.0	666	58	8.7
CDI	20.2	def	def	32.3	18.5	–14.8	11.0	P-D	794	–4	def
Figgie Intl	15.7	7.2	6.3	44.6	11.7	–5.5	8.6	–45.9	1,268	26	2.1
Ogden	15.3	7.5	5.0	75.1	11.8	–0.9	–12.7*	–49.4	1,546	36	2.4
Ecolab	14.7	10.5	10.1	37.6	21.8	–5.4	NM	212.1	1,297	51	3.9
Millipore	12.7	7.5	6.9	18.6	14.0	8.2	NM	–40.0	739	32	4.4
Browning-Ferris Inds	10.7	5.5	4.5	46.3	19.8	7.3	–13.4	D-P	3,183	65	2.1
CRSS	10.7	def	2.4	33.6	8.8	–2.2	–51.5†	P-D	475	0	def
Air & Water Tech	def†	def	def	52.3	12.4	12.8	NA	D-D	657	–24	def
Medians	15.0	7.3	5.6	40.3	16.3	3.2	–12.7	–43.0	1,031	34	2.1
Environmental & waste											
ICF Intl	29.2†	def	def	58.1	81.5	25.9	86.4	P-D	683	–18	def
Waste Management	24.5	20.8	11.3	40.4	30.0	37.7	24.0	11.7	7,397	775	10.5
Thermo Electron	12.9	12.7	9.7	35.7	21.6	22.5	19.0	20.3	801	43	5.3
Zurn Industries	12.7	12.1	11.5	3.9	13.8	–5.4	13.5	7.9	620	31	4.9
Medians	18.7	12.4	10.5	38.0	25.8	24.2	21.5	9.8	742	37	5.1
Industry medians	14.8	10.3	9.0	31.4	11.7	2.6	8.5	–10.1	731	26	2.7
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. P-Z: Profit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

POWER.

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Business is still weak. But most of these outfits are in good shape to rebound smartly when the recovery finally comes.

By Brigid McMenamin

The recession continues to batter the troubled capital-goods industry. New orders for capital goods were 5.6% lower in the first ten months of 1991 than in the prior year's same period. The latest available figures show a 7% increase in exports of capital goods in the first eight months of 1991. But that's about half the increase posted in the same period of 1990. Last year foreign demand for U.S.-made capital goods was hampered by a stronger dollar and weak local economies.

During the first nine months of 1991, retail sales of heavy equipment fell 21%; sales of mining equipment were off 10%. Bucking that trend was industry leader Harnischfeger, whose mining division registered a 3% sales gain, largely on the strength of exports of surface-mining shovels. Makers of construction equipment saw a 30% sales drop through the summer of 1991. Terex, which makes heavy-duty off-road construction and mining machines, lost $19 million in the first nine months of the year. Caterpillar expects at least $172 million in losses for 1991.

Manufacturers of farm machinery continued their bru-

Capital goods

Company	Profitability: Return on equity, 5-year average %	Return on equity, latest 12 mos %	Return on capital, latest 12 mos %	Debt/capital %	Growth: Sales, 5-year average %	Sales, latest 12 mos %	Earnings per share, 5-year average %	Earnings per share, latest 12 mos %	Sales latest 12 mos $mil	Net income latest 12 mos $mil	Profit margin latest 12 mos %
Electrical equipment											
MagneTek	44.5	23.4	11.4	67.4	28.7	7.4	60.4	1.4	1,163	35	3.0
Mark IV Industries	33.2	14.2	8.4	68.5	57.4	25.2	42.2	–54.2	1,063	26	2.4
Premier Industrial	29.0	26.9	25.2	2.0	8.8	0.2	17.2	–3.1	633	73	11.5
Emerson Electric	20.4	21.1	18.9	12.8	8.0	–1.9	9.4	2.9	7,427	632	8.5
Hubbell	20.0	18.8	17.8	1.5	6.5	4.1	12.2	5.7	747	90	12.0
General Electric	19.9	20.4	11.7	47.7	11.3	4.6	15.6	6.8	59,938	4,411	7.4
Westinghouse	18.5	def	def	70.2	3.3	1.7	NM	P-D	13,080	–1,706	def
Valmont Industries	18.2	6.7	7.2	37.4	9.4	–7.1	58.0*	–58.4	443	8	1.7
WW Grainger	17.6	15.6	14.5	1.3	12.8	8.0	13.8	2.8	2,046	127	6.2
Honeywell	14.7	19.7	16.2	25.9	8.9	–1.5	NM	–39.3	6,155	338	5.5
Willcox & Gibbs	13.4	1.3	4.3	50.0	22.3	5.1	NM	–88.4	592	2	0.3
National Service	12.7	4.8	4.2	4.0	5.4	–2.8	–8.5	–67.8	1,602	32	2.0
Imo Industries	8.5	4.5	6.3	53.1	26.0	0.6	NM	–37.1	1,034	15	1.5
Penn Central	6.6	5.4	5.6	29.3	–4.7	24.3	NM	5.0	2,576	84	3.3
Genlyte Group	NA	2.9	5.6	66.4	5.7	–14.4	–8.4	–83.5	435	2	0.4
Medians	**18.4**	**14.2**	**8.4**	**37.4**	**8.9**	**1.7**	**9.4**	**–37.1**	**1,163**	**35**	**3.0**
Heavy equipment											
Terex	27.0	def	0.6	70.6	NM	–25.9	37.5	P-D	814	–19	def
Stewart & Stevenson	20.6	17.6	15.2	14.8	23.4	0.3	29.1†	1.4	669	32	4.8
Federal Signal	19.3	20.3	18.1	8.4	10.8	5.0	25.7	3.0	457	30	6.6
Nacco Industries	17.6	2.8	5.0	64.1	21.6	–0.8	6.8	–80.7	1,369	10	0.7
Tenneco	13.9	def	def	66.4	–1.3	–4.3	NM	P-D	13,900	–576	def
Ingersoll-Rand	13.3	9.1	7.9	13.5	7.4	–1.2	21.1	–29.8	3,619	142	3.9
Trinity Industries	11.7	7.6	7.1	50.6	28.4	–1.5	46.6	–13.4	1,265	26	2.1
Deere & Co	10.6	4.5	5.3	41.6	13.7	–7.6	NM	–69.4	7,219	136	1.9
Caterpillar	9.7	def	1.1	43.5	12.6	–8.4	19.8	P-D	10,481	–75	def
Harnischfeger Inds	9.3	11.5	11.3	12.0	28.7	–1.7	60.4†	2.9	1,674	67	4.0
Clark Equipment	6.8	def	def	23.7	10.1	–13.3	NM	P-D	1,263	–55	def
Interlake	6.5	NE	11.0	164.1	NM	–12.0	NM	D-D	723	–13	def
Allied Products	def	def	def	18.6	12.9	–12.7	NM	D-D	452	–21	def
McDermott Intl	def	def	2.3	41.4	NM	26.7	NM	D-D	3,536	–35	def
Medians	**11.1**	**0.6**	**5.1**	**41.5**	**11.7**	**–3.0**	**13.3**	**P-D**	**1,317**	**–2**	**0.0**

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-D: Zero to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Cooper Industries' Robert Cizik
Taking off the kid gloves.

Waste not, earn a lot

GIVEN the depressed capital goods market, Cooper Industries should be in trouble but isn't. Over the last 12 months Cooper's net income jumped 12%, to $382 million. With $6.3 billion in sales and 175 plants worldwide, Houston-based Cooper makes everything from electrical transformers to spark plugs.

Cooper's success is due largely to its chief executive, Robert Cizik, 60. A coal miner's son, Cizik doesn't wear kid gloves when he takes over a company. In 1989, for instance, Cooper spent $800 million to buy Champion Spark Plug, which had brand recognition but was losing out to foreign competition. "They were living in the glory days of the past," says Cizik. So he axed most of management, closed plants in Detroit and Toledo, consolidated operations and saved $50 million.

Cizik is tightfisted but knows when spending will pay off. At the Cooper Oil Tool division plant just outside Houston he replaced 15 old machines that make oil and gas valves with two new computer-controlled machines. They cost $1.5 million but freed up 3,000 square feet and cut production time from 16 weeks to 2.

Cooper also asked a team of plant engineers, marketers and accountants to work with suppliers and customers to improve valves made in the factory. It turned out that a valve one-third lighter would do the job. The task force cut overall manufacturing costs 35%, tripled profit margins on the new valve and got it from drawing board to customer in nine months instead of the usual three years.

Cizik is also trying to control medical costs. Last fall he got United Steelworkers in Canonsburg, Pa. to accept a cheaper health care plan and agree to phase out retiree health benefits. "The problem of retirees is too big for corporate America to take on its shoulders." He will start this year negotiating with Champion's United Auto Workers, from whom he's likely to seek the same concessions.

With a five-year average earnings-per-share growth rate of 16%, why is Cizik so eager to cut every extra penny? In Cizik's words, "To get more bang for the buck." –B.McM. ■

tal battle for survival. Industrywide sales dropped 14% in the first nine months last year, prompting a rash of price-cutting—and red ink. Tenneco's J I Case unit will probably have operating losses of over $500 million for 1991.

All this spilled over to the machine tool business. Cincinnati Milacron reported an 8% decline in latest 12-month sales and a $104 million net loss for the first nine months of 1991. Industrywide, new orders for electrical equipment were down slightly. But Hubbell's latest 12-month profits were up 5%.

Who wasn't hurting as much last year? Companies that make energy- and petrochemical-related capital goods. Record orders for valves and actuators helped Keystone International post a sales gain of nearly 12% for the lastest 12 months. Although the Gulf war stimulated an increase in worldwide drilling activity, softening oil prices have made this a short-lived domestic recovery for oilfield equipment.

What's ahead? In time, the Clean Air Act should spur capital spending, especially among U.S. coal-burning utilities and refiners, increasing demand for pumps, valves and compressors. And huge petrochemical refinery projects planned for Saudi Arabia and the Far East should also help the capital-goods makers. ■

Capital goods

Company	Profitability: Return on equity, 5-year average %	Return on equity, latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	Growth: Sales, 5-year average %	Sales, latest 12 mos %	Earnings per share, 5-year average %	Earnings per share, latest 12 mos %	Sales latest 12 mos $mil	Net income latest 12 mos $mil	Profit margin latest 12 mos %
Other industrial equipment											
Tyco Laboratories	23.1	13.3	11.6	39.6	29.6	33.7	28.6	–25.6	3,118	104	3.3
EG&G	22.2	21.4	20.7	0.5	15.5	16.6	7.1	11.5	2,663	79	3.0
Illinois Tool Works	21.4	16.3	12.7	12.5	32.4	7.6	35.7	–1.2	2,612	179	6.9
Dover	20.1	17.0	16.0	2.1	10.6	1.3	15.8	–11.9	2,212	134	6.1
Crane	20.0	16.0	12.4	20.5	9.6	–9.1	31.4	–13.4	1,320	51	3.9
Ametek	20.0	18.0	10.7	46.4	15.2	8.9	5.0	–1.2	701	36	5.1
Keystone Intl	19.5	17.3	15.4	18.2	17.3	11.5	22.2	–9.2	479	40	8.4
Applied Power	16.4	6.6	5.4	52.7	36.0	–2.6	–17.4†	–59.5	434	8	1.8
Donaldson	15.1	15.4	14.9	7.0	11.5	5.9	14.5	0.8	458	23	5.0
Stanley Works	15.1	12.0	9.6	21.9	10.9	–1.8	8.2	–12.7	1,951	96	4.9
Pentair	13.5	11.3	8.7	34.4	18.2	0.1	10.1	26.7	1,167	38	3.3
Kennametal	13.1	7.5	6.9	26.9	13.4	1.7	6.2	–45.8	616	18	2.9
Cooper Industries	13.1	11.7	9.6	30.0	15.1	4.6	16.2	8.4	6,277	382	6.1
Thomas Industries	12.7	3.3	4.3	40.1	9.7	–11.1	NM	–71.0	418	5	1.1
Great American Mgmt	11.3	15.1	8.2	68.0	26.1	–38.8	NM	–7.4	1,281	38	2.9
Goulds Pumps	10.9	15.2	11.9	16.2	11.8	6.3	9.1	500.0+	571	32	5.5
Lincoln Electric	10.6	def	def	28.9	18.4	9.3	NM	P-D	806	–3	def
Parker Hannifin	10.4	5.2	5.3	28.5	7.8	–3.9	–4.8	–54.4	2,399	52	2.2
Commercial Intertech	10.4	9.0	8.9	13.9	18.3	1.5	12.1	60.7	448	21	4.6
Trinova	9.9	def	0.6	22.9	3.2	–10.2	–13.1	P-D	1,764	–5	def
Tecumseh Products	9.2	4.9	4.7	3.2	13.0	–14.3	–15.2	8.5	1,193	34	2.8
Briggs & Stratton	8.8	13.3	10.1	18.3	5.6	–4.7	3.7	–6.9	949	37	3.9
Bearings	8.5	3.2	3.1	0.0	10.6	15.6	23.4	–52.3	810	4	0.5
General Signal	4.5	1.7	3.3	38.6	NM	–7.9	NM	–71.6	1,618	8	0.5
Timken	4.1	0.3	0.6	10.4	10.7	6.4	56.1†	–92.1	1,694	3	0.2
Cincinnati Milacron	def	def	def	41.4	2.1	–7.7	NM	P-D	779	–136	def
Sudbury	def	NE	def	102.9	11.5	–18.7	NM	Z-D	358	–68	def
Eagle-Picher Inds	def	NE	def	36.2	2.6	–11.4	NM	P-D	620	–16	def
Medians	12.0	10.1	8.5	24.9	11.7	0.7	6.6	–12.3	1,058	33	2.9
Industry medians	13.2	7.5	7.2	28.9	11.3	–0.8	7.1	–29.8	1,193	30	2.8
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-D: Zero to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

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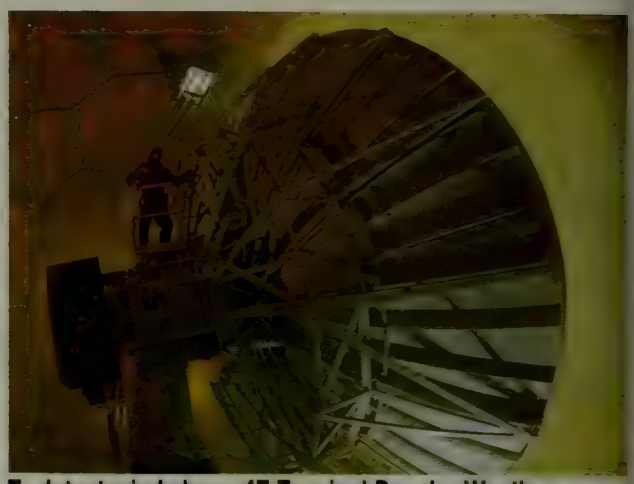

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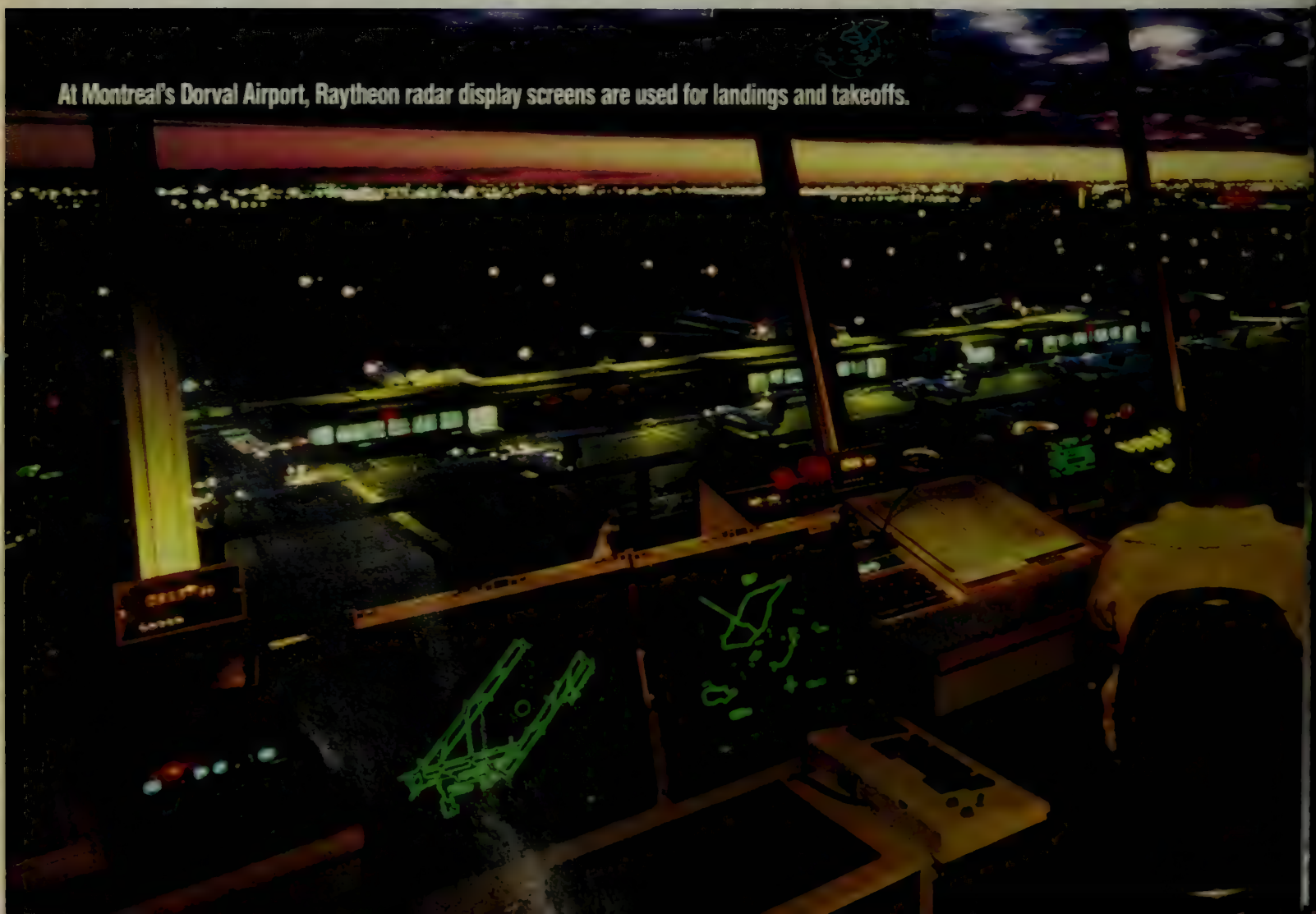

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Raytheon

Chemical exports increased, but a weak economy and overcapacity hurt prices and profits. The group should do better this year.

By Randall Lane

Now paying for the good years it had in the 1980s, the chemical industry is in somewhat of a bind. Past profits were poured into expansion, and that spawned the current overcapacity in most commodity petrochemicals—notably ethylene, styrene and polystyrene. Couple that with lagging demand thanks to the slow economy, and it's hardly surprising that industry earnings slumped an estimated 15% in the past year.

Particularly hard hit have been the commodity producers, including Dow Chemical and Union Carbide, which specialize in building-block petrochemicals. These companies flourished a few years ago, when organic chemicals were in short supply.

But no matter how well the economy performs this year, the Dow Chemicals and Union Carbides are still likely to feel the pinch from excess supply. More diversified chemical companies, such as Goodrich, Air Products & Chemicals and Monsanto *(see box, opposite)*, are likely to perform a little better.

Specialty chemical firms have benefited from lower feedstock prices and turned in stronger performances. Betz Laboratories, Great Lakes and Cabot all reported strong earnings last year.

Another bright spot this past year was chemical exports, which jumped more than 10% and raised the U.S. chemical trade surplus to nearly $20 billion. But several Asian facilities are scheduled to start operations in the next few

Chemicals	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Diversified											
Union Carbide	28.1	1.9	3.3	40.2	NM	–4.2	–13.2*	–85.2	7,234	56	0.8
Dow Chemical	27.2	13.6	10.8	33.8	13.1	2.7	23.6	–15.2	19,391	1,308	6.8
Valspar	23.1	19.2	14.9	24.7	11.6	7.1	19.2	–2.6	610	25	4.1
A Schulman	20.8	19.4	18.1	3.6	13.4	8.5	22.5	19.9	736	42	5.8
Imperial Chemical Inds	17.4	7.5	5.6	21.5	10.3	–4.7	10.9	–46.4	22,576	775	3.4
Rohm & Haas	17.1	12.0	8.1	28.2	7.4	0.5	9.6	–11.1	2,782	170	6.1
Univar	15.7	0.7	1.6	43.2	22.1	1.9	27.1	–95.3	1,417	1	0.1
Rhone-Poulenc	15.2	0.5	3.5	38.3	15.2	13.1	NM	–93.0	15,096	165	1.1
El du Pont de Nemours	15.1	13.0	8.9	24.3	7.1	6.0	17.7	–8.5	39,656	2,111	5.3
Monsanto	15.1	6.4	5.3	27.4	6.5	1.6	15.3*	–55.4	8,940	261	2.9
Olin	14.1	def	0.5	34.8	9.9	–9.1	9.9*	P-D	2,321	–15	def
BF Goodrich	12.7	2.5	2.9	21.5	–4.0	0.4	74.5*	–77.5	2,440	40	1.7
Quantum Chemical	12.3	NE	1.4	92.2	8.4	5.6	NM	P-D	2,623	–96	def
Hercules	8.9	3.3	3.0	21.7	4.7	–3.6	NM	D-P	3,040	63	2.1
First Mississippi	6.8	3.3	3.8	32.6	17.0	2.2	–36.0*	–17.9	541	6	1.2
FMC	NE	109.1	17.7	76.1	3.2	8.6	27.7	5.4	3,872	170	4.4
Medians	15.2	4.8	4.6	30.4	9.1	2.1	13.1	–32.2	2,911	60	2.5
Specialized											
Vigoro	61.5	44.4	13.9	43.1	15.9	4.7	31.5	44.5	581	28	4.8
Sterling Chemicals	59.9*	34.0	19.2	31.9	NM	7.3	–20.3*	–37.4	543	37	6.8
Georgia Gulf	59.8	NE	36.3	225.0	13.4	–6.5	38.5	–54.7	885	68	7.7
Freeport-McMoRan	43.8	14.3	8.4	54.4	17.7	–4.2	37.7	–76.2	1,598	106	6.6
Wellman	34.1	11.1	9.2	40.3	42.6*	2.5	39.5*	–34.1	811	44	5.4

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Do the right thing

Mark Katzman

Monsanto's Richard Mahoney **intelligent diversification has yielded a better company.**

MONSANTO Chairman Richard Mahoney chooses his markets carefully: The company will compete only where its product is the leader, or a close second. A division that's not up to snuff is sold and resources are focused elsewhere.

Tough standards. But they have served St. Louis-based Monsanto well over the years. Between 1986 and 1990, 18 units were sold, one was merged and another shut down, while three new businesses were added. During that same period sales went up 31%, to $9 billion, and earnings grew 26%, to $546 million. (Latest 12-month profits are only $261 million because of a restructuring charge mainly in the company's chemical operations, in which 2,500 employees were laid off. Several small plants will close.)

William Young, a chemicals analyst with Donaldson, Lufkin & Jenrette, estimates that Monsanto will have sales of $8.9 billion and earn $5 per share in 1991, and $6 a share in 1992.

Says Mahoney, "Efficiency isn't doing with less. Efficiency is doing smarter. Picking the right things to do and then doing them very well."

Mahoney has been picking the right things since the early 1980s, when Monsanto decided to change course. It sold its petrochemical unit, one of its key assets, to Du Pont in 1981. Paper, chemical and polystyrene divisions soon followed. In came higher-margin businesses such as Searle, the pharmaceutical maker. The company also acquired a line of agricultural products.

Three of Monsanto's top-selling products—NutraSweet artificial sweetener, Roundup herbicide and hypertension drug Calan—gained market dominance through patent protection.

Isn't that tempting to take advantage of? "You dare not violate the customer's confidence," says Mahoney. Long-term sales after patents expire depend on consumer loyalty, so there's no room for overly aggressive pricing, he adds. Instead, Monsanto keeps on trying to reduce manufacturing costs and other expenses. This way, when others join the market, Monsanto is already well positioned as a low-cost provider.

That strategy will be tested in the next few years. Calan is already off patent and NutraSweet and Roundup will lose their monopolies over the next two years. But Mahoney has several new products—including an insomnia treatment drug and a crabgrass killer—already in the pipeline. –R.L. ■

years—suggesting that the U.S. trade surplus may have peaked.

Despite the industry's woes, chemical company stocks outpaced the market for most of the year, beating the S&P 500 by about three percentage points through October. Why? John Garcia, a chemicals analyst at Wertheim Schroder, notes that the sector is heavily dependent on automobiles and housing starts; investors were betting that the economy would perk up. But the group stumbled in November as wavering confidence about the recovery set in.

Still, producers remain optimistic about this year. A survey by the Chemical Manufacturers Association showed expected sales growth of 5%, with earnings up as much as 15% industrywide. Assuming, of course, there is a meaningful economic recovery. ■

Chemicals	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Valhi	30.9	11.9	6.4	44.9	35.8	–40.0	38.4	–50.8	1,011	36	3.5
Sigma-Aldrich	26.0	20.5	17.6	12.9	20.0	15.2	21.7	10.5	566	75	13.3
Loctite	24.6	21.9	20.3	9.9	18.0	5.5	29.6	7.8	563	70	12.4
Nalco Chemical	24.3	29.3	18.1	26.1	12.6	12.0	15.8	8.8	1,310	136	10.4
Great Lakes Chemical	24.0	20.7	25.3	8.7	32.3	27.1	40.1	13.2	1,275	154	12.1
Ethyl	23.4	21.5	13.9	37.5	13.2	4.4	22.9	–1.0	2,592	225	8.7
Betz Laboratories	22.7	23.3	21.1	0.0	13.7	13.9	13.9	17.5	652	73	11.2
Lubrizol	20.9	16.8	15.2	6.4	9.2	8.4	24.3	–26.4	1,477	123	8.4
Intl Flavors & Frags	20.1	18.6	18.2	0.0	13.4	8.4	16.9	9.8	1,011	167	16.5
NCH	19.7	18.7	18.3	4.8	12.9	5.1	25.6	8.1	677	43	6.3
Sherwin-Williams	18.6	16.3	13.4	9.4	3.4	12.4	9.4	3.2	2,505	127	5.1
Pall	18.6	18.1	15.8	9.2	14.4	16.4	11.6	20.3	657	80	12.2
RPM	17.7	17.2	11.5	40.8	14.8	5.0	14.0	13.7	496	31	6.2
Chemed	16.3	31.0	24.4	13.0	12.5	–31.5	–9.6	155.1	408	50	12.4
Air Prods & Chems	16.1	14.7	9.6	29.6	8.8	1.3	10.2	7.2	2,931	249	8.5
Morton International	14.5	13.0	11.1	17.6	13.5	11.1	7.7	–3.7	1,929	139	7.2
Akzo	13.9*	8.2	7.6	18.0	9.4	–8.8	NM	–25.1	9,316	391	4.2
Dexter	13.7	3.8	5.1	25.6	7.9	5.4	7.8	–68.0	932	13	1.4
IMC Fertilizer Group	13.7†	12.3	9.1	45.1	6.3	0.3	NM	20.1	1,124	93	8.3
Cabot	13.6	23.5	12.6	38.3	3.6	–11.4	NM	112.5	1,482	127	8.6
MA Hanna	13.0	1.7	3.4	52.3	54.9	–0.6	NM	–80.7	1,112	11	1.0
HB Fuller	12.3	13.4	10.9	26.0	11.9	7.3	4.5	50.3	835	27	3.2
Ferro	12.1	def	def	13.4	12.4	–3.6	17.0	P-D	1,073	–9	def
WR Grace	11.3	11.1	8.2	49.4	9.1	6.0	8.0†	–0.4	6,918	212	3.1
Witco	10.7	10.5	8.4	25.0	3.4	3.5	NM	108.0	1,654	65	3.9
Grow Group	def	def	def	59.7	NM	0.9	NM	D-D	418	–12	def
Inspiration Resource	def	def	def	42.9	5.5	–23.8	NM	P-D	1,063	–269	def
Intl Specialty Prods	NA	39.9	12.6	76.5	13.4*	4.6	NA	NA	528	62	11.7
Lyondell Petrochem	NA	500.0+	41.0	77.0	12.8	9.1	NA	–21.2	6,364	274	4.3
NL Industries	NA	def	3.1	82.4	10.4	–5.1	44.3	P-D	872	–7	def
Rexene	NA	NE	2.7	122.4	8.2	–7.0	NA	D-D	477	–34	def
Medians	18.6	15.5	12.1	30.8	12.7	4.6	13.9	–0.4	1,011	69	6.5
Industry medians	16.7	13.0	9.4	30.8	12.2	4.0	13.9	–11.1	1,200	67	4.9
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

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OUR SHIELD AGAINST THE UNEXPECTED.

Computers are becoming little more than commodities. Who will survive? Companies with the best software, support—and prices.

By Julie Pitta

Big computer makers found out last year that customers were no longer willing to pay a premium for proprietary products that offered little, if any, advantage over other computers on the market. These manufacturers slashed costs—but not fast enough—to adjust to shrinking profit margins.

IBM said another 20,000 jobs would go in 1992, doubling the number of positions eliminated last year. Its chairman, John Akers, began reorganizing the company into a group of smaller—and, it is hoped, more agile—business units. IBM was not alone in cutting workers. Digital Equipment has reduced its work force by about 11,000 employees since September 1989; Apple eliminated 1,000 jobs in 1991; and Compaq furloughed 1,700 people. Compaq posted a $70 million loss for the third quarter—its first ever—forcing the resignation of Joseph (Rod) Canion, its cofounder and chief executive.

Meanwhile, more nimble firms like Sun Microsystems Inc., AST Research and Dell Computer flourished in a price-sensitive marketplace. Dell had an early jump as a direct marketer of IBM/DOS-compatible PCs. Dell posted profits of $44 million on sales of $772 million over the last 12 months. But Zeos International, private Compuadd, Gateway 2000 and other aggressive firms are in pursuit

A superstar that almost died in infancy

"SIMPLICITY" is the key ingredient for efficiency. So says Raymond Noorda, 68, chairman and chief executive of Provo, Utah-based Novell Inc. When Noorda arrived in 1983, Novell engineers had been struggling to develop a hardware and software system for interlinking personal computers. But the plan was far too ambitious: Nearly all Novell's venture money was spent to design the computer system, leaving little funding for marketing. The tiny outfit almost went under.

That's where Noorda came in. A turnaround veteran who had previously put in stints at other electronics firms, Noorda moved quickly. He started by getting rid of Novell's custom-made PCs and opted instead to resell Korean-made clones.

More important, Noorda presciently decided to phase Novell completely out of hardware: "It was quite clear to me that once [PC manufacturers] standardized, they would drive each other crazy trying to bring down costs."

Novell's engineers had created a promising software program to link PCs into local-area networks. But computer resellers were reluctant to sell Novell's software without matching hardware. "We had to convince them that it was better for them to buy [hardware] from the source because they would get a better price. It was a five-year process," Noorda explains.

Noorda's patience paid off. Novell's software and hardware revenues were almost evenly split four years ago. Now software accounts for 90% of Novell's revenues. The company is unquestionably the industry leader in computer networking software. Over the last 12 months its Netware racked up $530 million in sales.

What about the competition? IBM and Microsoft, together with 3Com Corp., spent millions developing a competing product called LAN Manager, but it hasn't been a booming success.

By getting out of hardware, Noorda left Novell with only two big fixed costs: programmers and their computers. Once a new software package is created, thousands of copies of the program can be duplicated with only a nominal cost per package.

Shareholders who bought into Novell in 1985, when venture capital firm Safeguard Scientifics took it public, are eternally grateful: A $10,000 initial investment is now worth $750,000. –J.P.

Raymond Noorda, Novell chairman and chief executive
His future was in software, not hardware.

Computers & communications	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital		Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Major systems											
Compaq Computer	41.1	10.3	9.6	3.4	53.2	0.4	63.7	–50.9	3,399	199	5.9
Dell Computer	32.5*	33.2	38.4	6.8	75.0	57.9	57.9	92.0	772	44	5.7
Apple Computer	32.2	20.6	15.9	0.0	27.4	13.5	20.3	–31.6	6,309	310	4.9
Stratus Computer	23.0	18.6	19.0	3.2	38.8	14.5	32.8	27.0	439	46	10.4
Cray Research	21.7	13.3	12.5	13.8	14.3	–9.0	4.6	–30.1	801	87	10.8
AST Research	21.0	29.1	24.4	8.2	32.6	34.9	20.0	35.7	749	70	9.3
Amdahl	18.5	6.1	5.5	3.3	22.5	–8.6	46.8	–49.0	1,957	85	4.3
Sun Microsystems	18.4	16.5	15.0	22.5	70.8	26.7	43.3	32.9	3,299	191	5.8
Hewlett-Packard	14.3	11.6	11.3	2.4	16.1	9.5	7.9	–1.3	14,494	755	5.2
Silicon Graphics	14.3	8.3	8.6	5.3	68.3	30.4	65.5	–28.8	586	33	5.6
IBM	13.7	7.6	6.4	23.4	6.8	–1.0	NM	–21.0	65,771	3,279	5.0
Intergraph	12.9	10.6	10.5	2.9	14.4	20.6	2.4	14.3	1,187	74	6.2
Tandem Computers	9.3	2.8	2.8	6.5	20.7	3.0	–9.7	–70.8	1,922	35	1.8
Everex Systems	7.1	def	def	7.7	44.7	–2.6	NM	P-D	425	–48	def
Tandon	6.7	def	def	7.6	12.2	16.2	NM	P-D	463	–19	def
SCI Systems	6.6	0.8	3.3	54.2	21.8	–8.5	–30.8	–90.3	1,079	2	0.2
Itel	6.3	def	6.3	77.4	54.6	–15.8	NM	P-D	1,728	29	1.7
Harris Corp	6.2	1.5	2.9	34.4	8.3	–1.4	–13.5	–87.3	3,007	15	0.5
Digital Equipment	4.5	def	def	1.9	12.4	9.3	NM	D-D	14,111	–615	def
Raychem	0.2	def	def	24.9	8.1	8.3	NM	D-D	1,261	–19	def
Teradyne	def	3.1	4.0	9.5	9.3	10.7	NM	D-P	499	9	1.8
Data General	def	19.8	19.9	25.0	–0.9	1.0	NM	D-P	1,229	86	7.0
Unisys	def	def	def	59.0	13.5	–9.6	NM	D-D	9,168	–1,562	def
Control Data	def	def	def	28.1	–11.3	–13.1	NM	D-D	1,552	–17	def
Wang Laboratories	def	def	def	82.9	–4.5	–19.0	NM	D-D	1,988	–398	def
Datapoint	def	NE	7.9	50.7	–4.3	–0.7	NM	D-D	265	5	2.0
Medians	8.2	4.6	5.3	8.8	15.3	2.0	–22.2	–50.0	1,407	34	3.2
Peripherals & equipment											
Conner Peripherals	47.8*	20.6	19.5	33.8	132.0†	39.8	80.8†	7.9	1,600	127	7.9
Tech Data	26.9	19.0	16.8	20.2	65.2	35.2	25.7	292.5	569	10	1.8
Quantum	26.9	21.8	24.1	0.0	48.8	70.9	NM	–3.9	1,019	58	5.7
Merisel	22.0	4.7	4.8	53.2	42.0	44.1	NM	–21.4	1,475	6	0.4
Intel	20.7	21.2	20.0	7.4	27.1	22.5	26.2†	25.3	4,619	794	17.2
AMP	19.6	14.7	13.8	2.7	13.2	4.6	21.6	–8.8	3,082	263	8.5
Micron Technology	18.7	1.0	1.9	11.6	54.0	27.6	NM	0.0	425	5	1.2
Vishay Intertech	18.5	13.3	9.9	38.1	65.4	2.2	21.0	–3.0	450	24	5.4
Thomas & Betts	17.0	14.3	12.9	14.7	14.3	–3.3	6.9	5.0	573	50	8.7
Seagate Technology	15.8	0.1	2.3	32.2	39.5	0.1	NM	–99.4	2,667	1	0.0
Marshall Industries	15.8	10.9	9.8	17.9	20.4	2.0	40.5	–17.6	574	16	2.9
Molex	15.0	12.2	11.8	1.8	16.2	16.5	14.2	–1.9	724	62	8.6
Applied Materials	14.3	8.4	8.5	28.1	37.4	12.6	NM	–24.0	639	26	4.1
Motorola	13.2	10.2	9.0	14.6	15.8	6.0	41.9	–17.3	11,236	437	3.9
Dynatech	13.2	8.3	7.1	34.1	13.0	1.4	–6.4	–18.5	477	12	2.6
Storage Technology	12.4	16.0	15.1	21.4	11.5	10.4	–13.7*	26.5	1,216	89	7.4
Texas Instruments	10.5	def	def	28.8	7.0	4.0	NM	P-D	6,791	–380	def
Wyle Laboratories	9.5	9.3	8.1	27.8	11.3	0.7	27.3*	–18.7	445	10	2.3
Avnet	7.5	7.0	6.5	19.9	4.3	–2.1	23.7	–4.3	1,715	55	3.2
Varian Associates	7.1	14.2	12.1	13.3	9.2	8.9	NM	D-P	1,378	58	4.2
3Com	6.4	def	def	0.1	35.4	–13.1	NM	P-D	379	–31	def
Analog Devices	5.2	def	def	6.8	9.3	18.9	NM	P-D	544	–13	def
Bell Industries	4.8	def	1.2	35.9	5.0	–0.3	NM	P-D	397	–1	def
Maxtor	0.5	def	def	48.9	53.4	48.6	NM	P-D	969	–74	def
Tektronix	0.1	12.0	10.1	16.0	NM	–5.6	NM	D-P	1,317	49	3.7
Arrow Electronics	def	def	5.8	53.8	16.2	–4.2	NM	P-D	933	3	0.3
Applied Magnetics	def	def	def	22.5	25.9	23.6	NM	D-D	455	–18	def
LSI Logic	def	def	def	29.2	37.7	17.7	NM	P-D	718	–38	def
M/A-Com	def	28.5	19.4	40.9	–6.8	2.0	NM	D-P	382	31	8.1
Western Digital	def	def	def	58.6	29.7	–15.6	NM	P-D	930	–174	def

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Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

and are selling even cheaper clone computers.

The recent U.S.-Japan chip agreement—in which the Japanese allow U.S. firms to sell more chips in Japan in return for the U.S.' dropping tariffs on some Japanese electronics—was supposed to have helped the sagging fortunes of U.S. chipmakers. So far it hasn't.

Intel Corp.—which once had a hammerlock on the IBM-DOS-compatible microprocessor market—was among the few U.S. chip companies to have a strong year in 1991. Intel posted profits of $794 million on revenues of $4.6 billion over the last 12 months. But even once-invincible Intel is facing a growing challenge from microprocessors made by Advanced Micro Devices, Chips & Technologies and Cyrix.

Software companies generally fared better than hardware companies. Microsoft, which still dominates the fast-growing PC software market, was hiring new programmers. But Lotus Development, facing declining profits, announced late last year that it will fire 300 to 400 workers.

Cellular telecommunications became particularly hot in 1991, with regional Bell operating companies staking out territories. Southwestern Bell, which bought cellular properties in Chicago, Boston and Washington a few years ago (before prices escalated), had a head start. ■

Computers & communications	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Advanced Micro	def	def	def	17.7	7.1	4.4	NM	D-D	1,126	–4	def
Atari	def	22.3	16.6	26.6	21.2	–27.1	NM	333.3	314	23	7.2
Natl Semiconductor	def	def	def	3.6	NM	–2.9	NM	D-D	1,670	–154	def
Sprague Technologies	def	def	def	13.8	–7.9	–9.3	NM	D-D	289	–45	def
Medians	**10.0**	**8.3**	**7.6**	**20.8**	**17.2**	**4.2**	**NM**	**–18.1**	**827**	**11**	**2.4**
Software											
Microsoft	45.8	41.8	45.8	0.0	54.2	55.9	55.3	57.6	2,055	519	25.3
Novell	38.8	35.0	36.6	0.3	71.3	26.8	61.6	77.6	593	144	24.4
Computer Associates	27.0	14.5	13.1	2.0	40.2	6.9	33.5	–4.4	1,364	160	11.8
Lotus Development	26.2	1.5	3.8	28.1	24.8	18.2	NM	–94.4	766	6	0.8
Oracle Systems	26.0	5.9	4.9	4.0	82.9	9.6	NM	–54.5	1,058	19	1.8
MAI Systems	def	def	def	79.3	10.9	–44.6	NM	P-D	362	–118	def
Medians	**26.6**	**10.2**	**9.0**	**3.0**	**47.2**	**13.9**	**NM**	**–29.5**	**912**	**82**	**6.8**
Telecommunications											
MCI Communications	24.9	25.5	11.9	52.1	24.1	12.0	59.7†	74.1	8,274	534	6.5
Centel	19.9	14.0	7.9	44.9	–4.0	–0.3	NM	–45.8	1,166	151	13.0
Alltel	17.7	19.1	10.9	41.4	19.8	8.7	14.0	8.0	1,694	196	11.6
Cincinnati Bell	16.9	7.8	5.9	35.3	18.1	14.9	15.1	–44.3	1,099	52	4.7
United Telecom	16.7	14.3	8.0	48.2	26.7	6.6	NM	–1.0	8,732	340	3.9
GTE	16.2	14.3	7.2	43.9	3.7	13.3	7.5*	–19.6	20,693	1,478	7.1
Corning	16.2	15.4	12.6	23.1	10.8	15.4	19.1	4.2	3,206	298	9.3
Ameritech	15.7	15.0	9.1	27.5	3.3	1.9	5.3	–2.7	10,770	1,253	11.6
Northern Telecom	14.1	14.7	13.1	23.9	10.2	16.2	5.8	13.4	7,757	495	6.4
US West	14.1	12.2	7.3	34.1	5.2	3.5	6.0	–5.2	10,206	1,180	11.6
Pacific Telesis	14.0	13.3	7.9	30.3	2.6	1.2	4.2	–7.3	9,870	1,053	10.7
Bell Atlantic	13.8	14.0	7.9	33.8	5.6	1.7	2.6	20.0	12,286	1,327	10.8
So New Eng Telecom	13.7	10.5	6.5	32.1	4.7	–0.4	4.9	–6.7	1,629	128	7.9
BellSouth	13.7	10.9	7.4	27.7	6.5	0.6	1.6	–15.5	14,401	1,480	10.3
American Tel & Tel	13.1	4.1	3.7	29.4	1.6	16.5	34.0	–78.2	42,670	585	1.4
Southwestern Bell	12.9	12.3	7.6	28.1	3.1	3.0	2.0	–1.6	9,256	1,108	12.0
Rochester Telephone	12.8	14.7	9.2	37.2	9.2	12.9	NM	31.8	664	70	10.5
Nynex	11.4	9.5	6.4	34.4	5.5	–0.7	–4.8	7.1	13,427	913	6.8
Scientific-Atlanta	10.6	def	def	0.7	2.8	–17.5	NM	P-D	493	–2	def
DSC Communications	8.7	def	def	46.9	12.4	1.8	21.2*	P-D	503	–101	def
Comsat	4.1	def	def	40.5	NM	13.2	NM	P-D	498	–9	def
McCaw Cellular	def	def	0.6	63.9	89.1	44.4	NM	P-D	1,286	–375	def
Medians	**13.9**	**12.8**	**7.5**	**34.2**	**5.5**	**5.0**	**4.6**	**–6.0**	**8,016**	**418**	**7.5**
Industry medians	**13.2**	**9.4**	**7.4**	**25.0**	**14.3**	**4.5**	**–13.6**	**–19.1**	**1,223**	**40**	**4.0**
All-industry medians	**13.2**	**9.9**	**7.6**	**32.4**	**11.3**	**3.7**	**4.5**	**–5.9**	**1,436**	**40**	**2.9**

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Even today there are banks that can talk about financial strength.

Source: Merrill Lynch 1991 Global Bank Survey *Regulatory minimum effective 1992
Source: Salomon Brothers Stock Research – Bank Stock Weekly 9/30/91

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There could be a construction industry turnaround in 1992. Look for single-family housing to lead the way, with little improvement expected elsewhere.

By Claire Poole

After six consecutive down quarters, newly started construction contracts began inching their way back up to their mid-1990 values in the second quarter of 1991. Despite that improvement, total contracts were down an estimated 6% last year, to $228 billion.

What about 1992? George Christie, chief economist of McGraw-Hill's Construction Information Group, estimates that contracts will rise 10% this year, to $251.5 billion, and another 10% in 1993. How? Through housing. He explains: "Commercial building is about as bad as it is going to get, and it won't improve much in the near future. Publicly financed construction is as good as it can get until new programs are legislated. This means that the outlook for total construction comes down to how much the housing market can deliver."

So far, housing hasn't delivered much. Despite a slight recovery at midyear, the balance of 1991 was disappointing, with single-family starts expected to fall to less than 1 million units—the worst full year since 1982. The West has been the hardest hit, followed by the Midwest and the Northeast. But housing starts actually rose in the South.

This year looks better. Single-family starts should grow 20% in 1992, not quite as good as the typical 30% to 40% in the first year of a recovery. What's happening this time around? Most baby boomers have already bought their first house; those who would like to buy and might otherwise be lured by low mortgage rates are nervous

Construction	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Commercial builders											
Jacobs Engineering	22.4	23.3	24.3	0.0	37.4	17.5	71.0	34.4	1,036	20	2.0
Apogee Enterprises	17.5	13.5	11.8	19.7	22.0	–1.1	15.6	–8.4	596	15	2.5
Granite Construction	16.5*	13.7	13.4	4.7	10.7	1.7	13.6	–1.7	573	20	3.5
Blount	13.5	def	1.9	41.1	–12.3	–6.7	80.3	P-D	620	–3	def
Fluor	13.4	17.8	15.7	6.4	12.3	–1.4	95.5†	14.4	7,044	156	2.2
Butler Manufacturing	11.8	def	0.3	57.1	2.0	–18.2	13.6	P-D	470	–4	def
Foster Wheeler	6.5	8.1	6.4	36.8	3.9	33.1	NM	13.5	1,955	42	2.1
CBI Industries	6.3	8.5	7.6	15.6	7.8	3.2	57.1*	–5.9	1,606	56	3.5
Perini	3.7	def	def	29.4	4.6	–3.9	NM	P-D	975	–4	def
Morrison Knudsen	def	13.4	9.2	32.4	–3.2	6.9	NM	8.3	1,867	39	2.1
Turner Corp	def	def	1.7	41.7	9.8	–17.7	NM	P-D	2,762	–4	def
Guy F Atkinson	def	def	def	3.4	–1.4	–18.3	NM	D-D	718	–22	def
Medians	9.1	8.3	7.0	24.6	6.2	–1.2	13.6	–7.1	1,006	18	2.0
Residential builders											
Kaufman & Broad Home	23.3*	6.2	7.3	40.0	30.5	–15.9	13.0	–74.3	1,278	16	1.3
Ryland Group	21.3	3.8	6.2	92.2	15.0	–12.3	7.7	–72.6	1,206	12	1.0
PHM	12.7	7.7	5.1	40.4	NM	6.0	17.9	–25.9	1,172	25	2.2
Centex	11.3	5.6	5.4	29.1	11.7	–3.6	7.1	–55.1	2,172	28	1.3
Lennar	10.1	6.9	4.0	28.1	10.4	–18.7	6.9	–1.1	322	19	5.9
Skyline	7.2	2.9	2.9	0.0	2.4	–15.9	–10.0	–51.2	313	5	1.4
MDC Holdings	def	def	4.2	63.0	5.6	–25.3	NM	D-D	420	–15	def
US Home	def	def	def	65.9	–6.4	–23.7	NM	D-D	502	–97	def
Medians	10.7	4.7	4.7	40.2	8.0	–15.9	7.0	–63.8	837	14	1.3

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Noel Watson (left) and Joseph Jacobs **Cut staff in half.**

"Faster, better, cheaper"

ONE OF the most tightly run construction companies in the U.S., Pasadena, Calif.-based Jacobs Engineering Group Inc. earned $20.4 million on sales of $1 billion in fiscal 1991 (ended Sept. 30)—a 2% net margin, average for the industry. Its return on equity? A staggering 23%, the best in the industry. And there's no long-term debt. For the last two years Business Roundtable has given Jacobs subsidiaries safety awards.

But that's a far cry from the early 1980s, when Jacobs—which designs and builds refineries and other industrial facilities—was just another oilfield-dependent outfit awash in red ink as petroleum prices tanked. Stung by an $8.9 million net loss in 1984, founder Joseph Jacobs became increasingly incensed about rising overhead and a "fat and happy" management. So he came roaring back from retirement (and his second open-heart operation) at age 68, wielding a knife. With the help of Noel Watson, then an executive vice president, Jacobs let go half the staff of 2,200 (including 14 vice presidents) and cut overhead by a third. By 1985 the company was back in the black, earning $2 million. Says Jacobs: "We came out of it determined that we'd never go through this again."

Toward that end, in 1988 Watson embarked on a "faster, better, cheaper" quality-improvement program. Watson's goal: Have everyone from telephone operator to engineer "do the job right the first time." The program established minimum acceptable procedures and standards for every job, split the employees into 80 teams and set up a performance rating system. Result? Costly reworking of drawings and welding has been reduced by 80%. And Jacobs keeps better tabs on client feedback by sending out surveys every quarter throughout a job, not just at completion.

Jacobs has become less dependent on refinery work by diversifying into complex environmental and hazardous waste projects. Nonrefinery projects now make up 80% of the company's revenues.

So with things in good shape, is Jacobs, at 75, winding down? Not much. He has turned over the operating reins to heir-apparent Watson, who is now president, but doesn't plan to retire. He's thinking up new ways for the company to expand—but cautiously. "We have to balance acquisitiveness," he says, "with our capacity to handle it." –C.P.

about the economy and their jobs. Still, southern central states like Texas, Oklahoma and Arkansas are expected to show a gain of 33%. That bodes well for regional players Centex, Ryland and Lennar, which recently began building homes in the Dallas area. The West will be the weakest, unfortunate news for Kaufman & Broad Home and Standard Pacific.

Little improvement is expected for the rest of the construction industry. The glut of office space haunts the commercial sector. Cushman & Wakefield reported 18.5% vacancy rates in central business districts in the third quarter of last year—the third consecutive flat quarter. Expect a 5% drop in office building in 1992, a 4% drop in retail building and a flat year for the hotel and motel sector.

Public works contracts, after five fairly solid years, may show a 4% gain in 1992 if Congress approves the highway and transit bill. That would be good news to companies like Morrison Knudsen, which has a strong transportation division. The Boise-based engineering and construction firm recently snared a plum: Texas' $5.7 billion high-speed-rail contract. Institutional building, including schools, hospitals and prisons, will be all but flat again—the fifth year in a row.

The building materials sector has suffered with the rest of the construction industry. But with housing starts expected to pick up in 1992, materials should follow. The worst may be over for the entire construction industry. ■

Construction

Company	Profitability: Return on equity 5-year average %	Return on equity latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	Growth: Sales 5-year average %	Sales latest 12 mos %	Earnings per share 5-year average %	Earnings per share latest 12 mos %	Sales latest 12 mos $mil	Net income latest 12 mos $mil	Profit margin latest 12 mos %
Cement & gypsum											
Vulcan Materials	20.7	10.9	9.4	10.0	3.3	–6.3	15.2	–36.8	1,024	74	7.2
Florida Rock Inds	16.8	1.4	2.5	17.3	11.1	–22.2	–4.1	–87.8	314	2	0.8
CalMat	15.9	5.3	4.1	9.0	NM	–18.1	15.9	–76.2	385	17	4.4
Southdown	12.6	def	0.5	31.8	15.2	–9.8	–42.6†	P-D	512	–18	def
Lafarge	11.7	def	def	37.6	12.2	1.2	31.6	P-D	1,621	–26	def
USG	10.4	NE	def	295.0	–6.3	–12.0	NM	P-D	1,748	–206	def
Ameron	9.6	5.4	4.3	39.5	8.9	5.9	3.8	–40.7	468	8	1.6
Holnam	3.8	def	1.0	46.1	16.5	–7.9	NM	D-D	991	–35	def
Dravo	def	def	def	26.8	–20.8	0.3	NM	P-D	294	–16	def
Medians	11.7	def	1.0	31.8	8.9	–7.9	–4.1	P-D	512	–16	–1.6
Other materials											
Waxman Inds	22.3	3.8	7.3	85.3	38.9	–12.9	NM	–76.2	386	1	0.4
Masco	13.8	2.2	3.5	41.1	24.3	–3.8	–4.9	–76.9	3,102	38	1.2
Ply Gem Industries	9.1	0.8	3.8	54.3	27.7	–1.4	NM	–86.4	548	1	0.1
Hughes Supply	7.2	def	0.3	46.5	12.2	–14.8	–13.5	P-D	478	–4	def
Morgan Products	6.0	def	def	38.7	4.9	–15.1	NM	D-D	358	–9	def
Noland	5.4	def	1.7	29.1	2.4	–12.0	–9.7	P-D	389	0	def
Nortek	def	def	def	55.8	10.6	–12.5	NM	D-D	935	–62	def
Robertson-Ceco	def	def	def	48.5	NM	51.0	NM	D-D	797	–48	def
MLX	def	def	def	98.5	43.6	–14.3	NM	D-D	396	–29	def
Owens-Corning	NE	NE	10.6	136.4	–2.6	–10.0	NM	P-D	2,893	–13	def
Eljer Industries	NA	def	def	56.7	8.6	–8.2	NA	P-D	410	–31	def
Manville	NA	2.5	4.7	48.1	3.7	–5.1	NM	–83.0	2,110	39	1.9
Medians	5.7	def	1.0	51.4	9.6	–11.0	NM	P-D	513	–7	–0.6
Industry medians	9.6	0.8	3.5	39.5	8.6	–8.2	–11.7	–87.8	718	1	0.1
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

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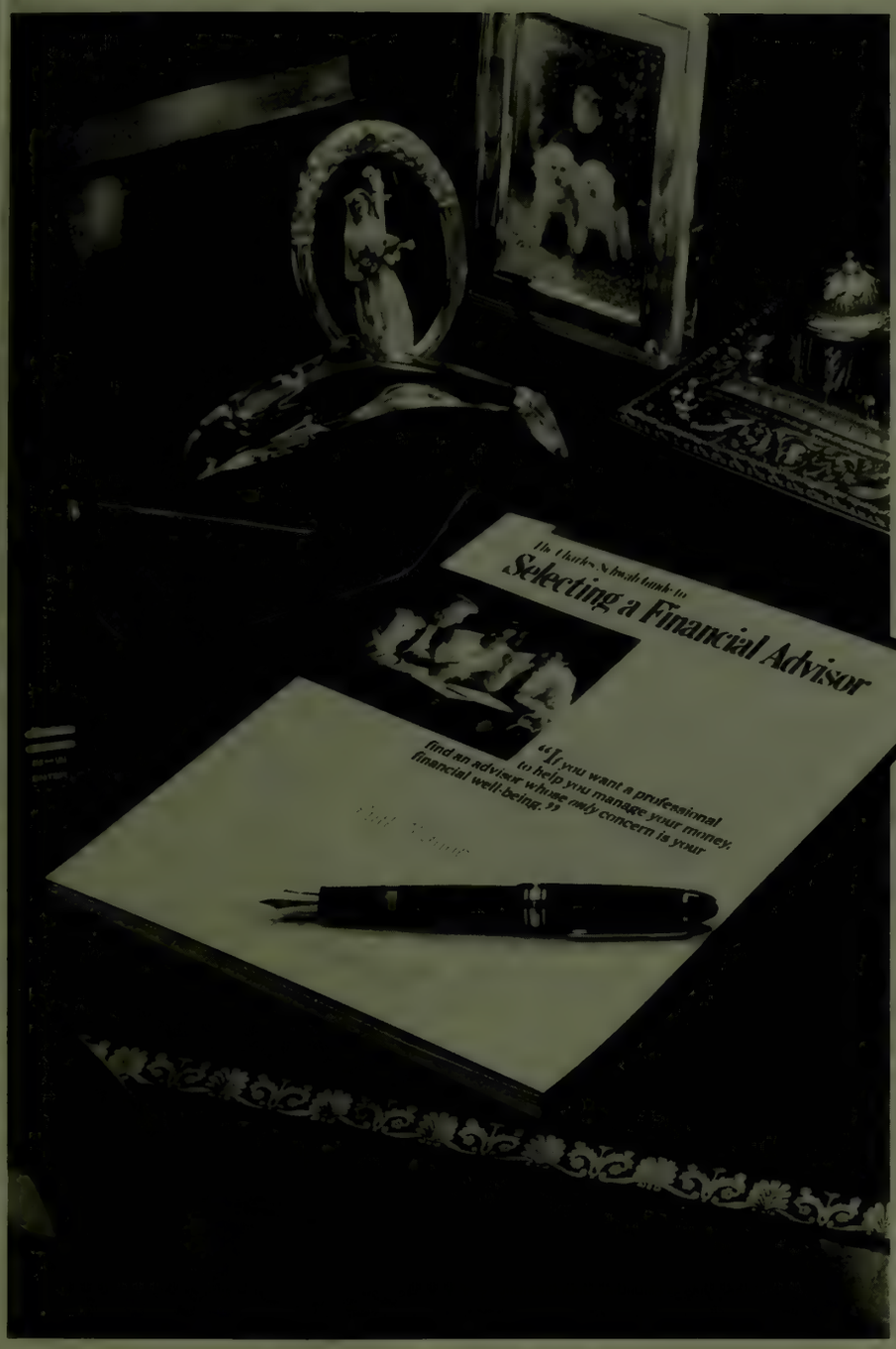

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Detroit's crisis: too many competitors, too much capacity, too few buyers.

By Jerry Flint

These are, indeed, the times that try men's souls. Detroit's new cars are better—better looking, better driving, better quality—and they underprice the foreign competition. Detroit also slashed billions of dollars out of its cost structure. All that, in a normal world, would be the basis of prosperity. It's not. In the past 12 months General Motors, Ford and Chrysler had $7 billion in net losses and even greater auto operating losses in North America.

Why? There's simply too much competition—two dozen carmakers operating in the wide-open American market—and too few buyers. Competition alone would make it a struggle in a good market. In this market it's life-threatening. Detroit's big three sold 5 million cars in 1991. Back in 1955—36 years ago—they sold 7 million.

Don't the foreign manufacturers suffer equally? They suffer, but not equally. In their new plants built in the hill country, costs are lower and productivity higher. Those younger, nonunion workers aren't just working smarter, they're working harder. "If a job is given 57 seconds at

Consumer durables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Automobiles & trucks											
Ford Motor	18.0	def	0.5	66.9	11.3	–7.3	NM	P-D	90,495	–2,301	def
Paccar	16.4	2.6	4.2	35.3	12.7	–17.1	13.8	–82.9	2,416	26	1.1
Volvo	13.3	def	def	12.3	5.2	–13.6	NM	P-D	12,949	–175	def
Chrysler	10.2	def	1.8	59.6	7.7	–4.0	–26.6	D-D	28,742	–604	def
Honda Motor	9.5	7.2	5.9	26.9	12.2	17.1	–6.2	–10.0	31,061	528	1.7
Navistar Intl	7.2	def	def	53.3	1.6	–7.2	NM	D-D	3,614	–105	def
General Motors	6.2	def	def	56.2	3.3	–5.4	NM	D-D	119,327	–4,141	def
Nissan Motor	4.5	2.9	3.3	39.5	9.4	18.4	24.6	–51.7	42,304	346	0.8
Medians	**9.9**	**def**	**1.2**	**46.4**	**8.6**	**–6.3**	**NM**	**P-D**	**29,902**	**–140**	**–1.7**
Automotive parts											
Bandag	42.5	32.5	29.2	2.2	12.4	2.6	18.5	3.4	584	77	13.2
Danaher	28.4	4.3	5.2	40.2	21.7	7.1	49.2	–80.7	840	14	1.7
TBC	25.0	22.3	22.3	0.0	5.6	–2.9	52.8	8.6	491	17	3.5
Genuine Parts	21.9	19.7	18.9	1.6	8.4	2.9	13.8	0.8	3,385	204	6.0
Snap-on Tools	20.7	11.5	11.3	1.0	9.7	–4.3	12.9	–31.4	888	74	8.3
PPG Industries	20.2	9.8	7.5	23.9	6.8	–3.3	15.3	–41.6	5,748	271	4.7
Cooper Tire & Rubber	19.8	19.8	15.4	13.5	12.2	7.7	30.4	12.0	960	73	7.6
Eaton	17.2	6.0	5.3	34.6	NM	–6.9	8.5	–58.3	3,391	77	2.3
TRW	16.2	6.9	5.5	32.9	6.6	–2.1	NM	–42.4	7,857	133	1.7
Modine Manufacturing	16.2	14.7	11.3	27.1	8.7	12.1	8.7	10.9	508	30	6.0
Allied-Signal	14.9	def	def	37.7	4.7	–2.3	NM	P-D	11,970	–281	def
SPX	13.3	def	def	34.3	NM	–3.9	NM	P-D	669	–18	def
Barnes Group	12.6	11.2	9.0	33.3	5.0	–0.9	5.1	41.8	537	16	3.1
Dana	12.1	1.5	4.5	49.3	8.4	–9.8	NM	–83.2	4,694	16	0.3
Varity	11.8	def	2.2	57.4	21.9	–9.3	NM	P-D	3,150	–44	def
Goodyear	11.4	def	3.4	52.9	4.2	–2.3	NM	D-D	10,937	–13	def
Carlisle Cos	11.4	def	def	24.8	5.4	2.3	5.0	P-D	615	–8	def
Johnson Controls	9.4	7.8	7.0	19.7	13.6	1.2	NM	2.8	4,559	95	2.1
Masco Industries	9.1	def	2.2	77.5	23.9	–8.1	NM	0.0	1,447	–45	def
Standard Motor Prods	7.8	5.3	5.9	26.4	15.4	6.0	–8.5	17.5	530	9	1.7
Echlin	7.5	6.3	5.8	26.8	13.3	5.3	–6.6	–11.8	1,686	42	2.5
Federal-Mogul	7.1	def	1.4	50.1	5.0	14.2	NM	P-D	1,249	–3	def
Arvin Industries	6.2	4.3	5.4	38.5	14.9	0.2	–17.8	–12.0	1,670	26	1.5
AO Smith	6.0	2.5	4.3	36.1	1.3	–8.5	NM	–11.1	864	9	1.1
Douglas & Lomason	2.4	7.8	5.8	50.5	10.6	–13.5	NM	20.4	369	4	1.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Toyota, it takes 57 seconds to do. In Detroit, if they give you 57 seconds, it really takes only 47, 48, 49 seconds to do," says a manager at Toyota's Kentucky car plant—an ex-Detroit manager. In other words, Toyota's employees work at least 15% faster than Detroit's.

The transplants' younger workers also mean lower medical and pension costs. But in this changing world economy, FORBES sees some of these "foreign" companies really as American manufacturers, and lists them in our tables. And why not? They assembled 1.4 million vehicles in the U.S. last year, have set up design studios in southern California, engineering shops outside Detroit and test tracks in Ohio and Arizona. Yes, sometimes it is a paradox. We call them foreigners at the same time that we call them

Honda: the most efficient "American" carmaker

IS IT FAIR to call a Tokyo-based company American? Well, 14,300 Americans work here for Honda, and half of Honda's annual $35 billion in sales comes from the U.S. Only a third comes from Japan. In Ohio, Honda assembles 450,000 cars a year.

When it comes to efficiency, few, if any, rivals match Honda. But efficiency is more than 450,000 cars divided by 10,000 workers. Efficiency means understanding what the customer wants, getting the most out of employees and making great product. Honda's Accord is America's best-selling car. Honda is always in the top ranks of consumer satisfaction surveys. The old Packard slogan, "Ask the man who owns one," could justifiably be taken up by Honda.

Honda executives get to the top because they've done something. Tadashi Kume, the former president, led the team that developed Honda's famous CVCC engine and the original Accord. Nobuhiko Kawamoto, today's president, was on that CVCC team and led the design group that built Honda's world championship Formula 1 racers.

Honda's Nobuhiko Kawamoto
Give me the Three Joys.

Detroit, too, has been led by engineers, designers and tinkerers like Henry Ford, GM's Ed Cole and Lee Iacocca. For a couple of decades, though, Detroit's managers seemed to rise because they got their M.B.A.s, kept their noses clean and didn't take a chance. Fortunately, those days seem over.

Will Honda falter in the 1990s as agile competitors give it the Japanese treatment—imitating and underpricing? Profits, $541 million last fiscal year (Mar. 31), are below their mid-1980s peak. Even more important, the pool of cheap money in Japan that fueled Honda's enormous technological charge is now dry.

But then there's "the Honda way," a seeming blend of Japanese and American cultures—Japanese-type talk, American-type action—that provides Honda's road map. President Kawamoto talks about the company's core philosophy, the Three Joys. "The joy to buy our products, sell our products and produce our products." Is this just Japanese corn? "Philosophy without action is worthless," says Kawamoto. Take the new Civic hatchback—a $10,000 automobile that the automotive press has compared favorably with much more expensive cars.

Despite all this, is FORBES premature to call Honda the most efficient American automaker? Maybe we are. But we think in terms of a global economy. Germans consider Opel a German company, not a Detroit-run GM subsidiary. Opel is as German as wurst. The day could come when Honda is considered as American as, well, baseball and apple pie. –J.F.

American. Indeed, FORBES considers Honda the most efficient of the American carmakers.

The auto industry isn't alone in its woes. The entire consumer durables group—appliances, home furnishings, recreation equipment—is hurting. An exception: Rubbermaid continues to report impressive sales and profit gains and a 20% return on equity. What does it sell? Plastic: plastic trash cans, plastic toys, plastic lunchboxes.

But most consumer durables manufacturers, like the car companies, await the upturn. The projected recovery is now pushed forward to spring 1992. If it doesn't come, something will have to give. Capacity will be cut again, particularly at GM. Chrysler's chances for survival will narrow. A worried Washington will look harder at imports.

When the recovery does come, the payoff resulting from improved product and cost-cutting will show immediately in profits. To borrow again from Tom Paine, the harder the conflict, the more glorious the triumph. ■

Consumer durables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Standard Products	1.6	def	def	50.2	7.9	2.0	NM	P-D	605	–43	def
Allen Group	0.2	def	1.4	37.6	–3.2	–25.8	NM	P-D	271	–3	def
Cummins Engine	def	def	def	31.9	11.6	0.6	NM	D-D	3,439	–188	def
Fruehauf Trailer	NA	0.8	2.9	87.6	–10.8*	–21.9	NA	NA	511	1	0.1
Medians	12.0	4.3	5.3	34.3	8.4	–2.1	NM	–36.5	960	14	1.5
Appliances											
Maytag	21.4	6.7	6.2	40.9	13.9	–5.1	–6.2	–42.9	2,970	71	2.4
Toro	14.3	5.5	6.2	46.1	11.9	–6.0	–6.4	–8.3	699	9	1.3
Whirlpool	9.9	5.3	5.6	37.3	14.1	1.6	–13.3	–56.9	6,683	76	1.1
Pittway	9.4	5.5	5.3	12.2	10.9	4.9	–6.5	–21.7	972	22	2.2
Sony	8.1	7.7	7.1	30.9	31.1	27.9	12.4	15.0	26,324	830	3.2
Black & Decker	7.9	3.0	6.4	71.8	22.2	9.8	NM	–67.4	4,622	28	0.6
Harman International	6.7	def	def	61.6	20.2	3.7	NM	P-D	591	–22	def
Philips Electronics	def	def	def	51.5	7.6	–1.2	NM	P-D	31,457	–2,845	def
Emerson Radio	def	def	def	82.8	6.1	–1.4	NM	D-D	801	–83	def
Zenith Electronics	def	def	def	33.1	NM	–11.9	NM	D-D	1,300	–78	def
Medians	8.0	4.2	5.5	43.5	12.9	0.2	NM	–62.2	2,135	16	0.9
Home furnishings											
Rubbermaid	22.6	20.4	19.0	3.3	18.3	12.1	17.9	12.0	1,639	157	9.6
Newell Co	20.4	20.7	18.3	12.5	29.3	0.1	29.8	2.4	1,080	107	9.9
Armstrong World Inds	15.8	4.7	5.3	18.2	8.9	–3.2	9.1	–68.6	2,467	65	2.6
Leggett & Platt	15.7	7.5	6.1	34.8	18.4	1.1	NM	–50.4	1,085	23	2.1
LADD Furniture	15.4	def	def	48.4	15.2	–16.7	NM	P-D	440	–9	def
Kimball International	14.8	10.4	9.6	1.4	7.7	–9.0	5.4	–29.9	549	30	5.4
La-Z-Boy Chair	13.9	11.3	9.6	20.7	12.2	1.2	2.1	–0.7	613	26	4.2
Oneida	12.0	6.4	5.7	37.3	12.4	4.4	–19.0†	–29.5	431	7	1.6
Premark Intl	10.6*	10.7	8.5	34.5	9.3	5.2	–10.9†	104.7	2,795	83	3.0
Springs Industries	6.9	4.6	5.0	33.1	11.8	–0.7	NM	500.0+	1,870	26	1.4
Bassett Furniture Ind	5.7	6.4	6.2	0.0	1.6	–11.7	–20.2	88.8	396	15	3.9
Interco	3.0	NE	3.6	238.4	–12.5	–4.4	NM	D-D	1,419	–129	def
Fieldcrest Cannon	def	def	0.2	60.5	13.4	–5.8	NM	D-D	1,207	–25	def
Medians	13.9	6.4	6.1	33.1	12.2	–0.7	–19.0	–29.5	1,085	26	2.6
Recreation equipment											
Harley-Davidson	35.6	16.1	14.7	17.8	27.7	2.6	49.4	–30.1	896	33	3.7
Huffy	14.6	15.8	10.7	40.4	14.1	28.2	27.3	–6.4	639	17	2.7
Fleetwood Enterprises	13.1	7.8	8.0	0.0	4.3	–4.3	NM	–22.1	1,452	34	2.4
Brunswick	10.0	def	def	16.6	11.9	–18.6	NM	P-D	2,099	–27	def
Outboard Marine	def	def	def	20.6	NM	–14.1	NM	D-D	984	–86	def
Coachmen Industries	def	def	def	12.7	–4.3	–20.5	NM	D-D	227	–15	def
Winnebago Industries	def	def	def	4.2	–8.6	–33.6	NM	D-D	223	–29	def
Medians	10.0	def	def	16.6	4.3	–14.1	NM	P-D	896	–15	–1.3
Industry medians	11.0	4.3	5.3	34.5	9.4	–2.3	NM	–51.1	1,300	15	1.1
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

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The established concepts of what a corporation is and what it stands for, how it views its product mix, where and how it produces what it sells, where it sees its market opportunities, who it views as partners and competitors, how it finances its present and future growth, how best it can work within governmental regulations and policies–all these once-familiar parameters are changing with astonishing, if not alarming, speed.

All this must seem especially true if your interests are international in scope.

Dates such as 1992 and 1997 foretell of major changes in long-established routines of managing the forces of economics, protectivism, finance and politics.

The words "Pacific Rim" connote more and increasingly vigorous competition.

And the echoes of political upheavals in every corner of the globe are certain to continue reverberating through it well into the next century.

The constant in assessing and managing these challenges, of course, is your personal involvement. Input from others is vital; but in the end, your decisions will be made on the basis of what you yourself see and hear and understand.

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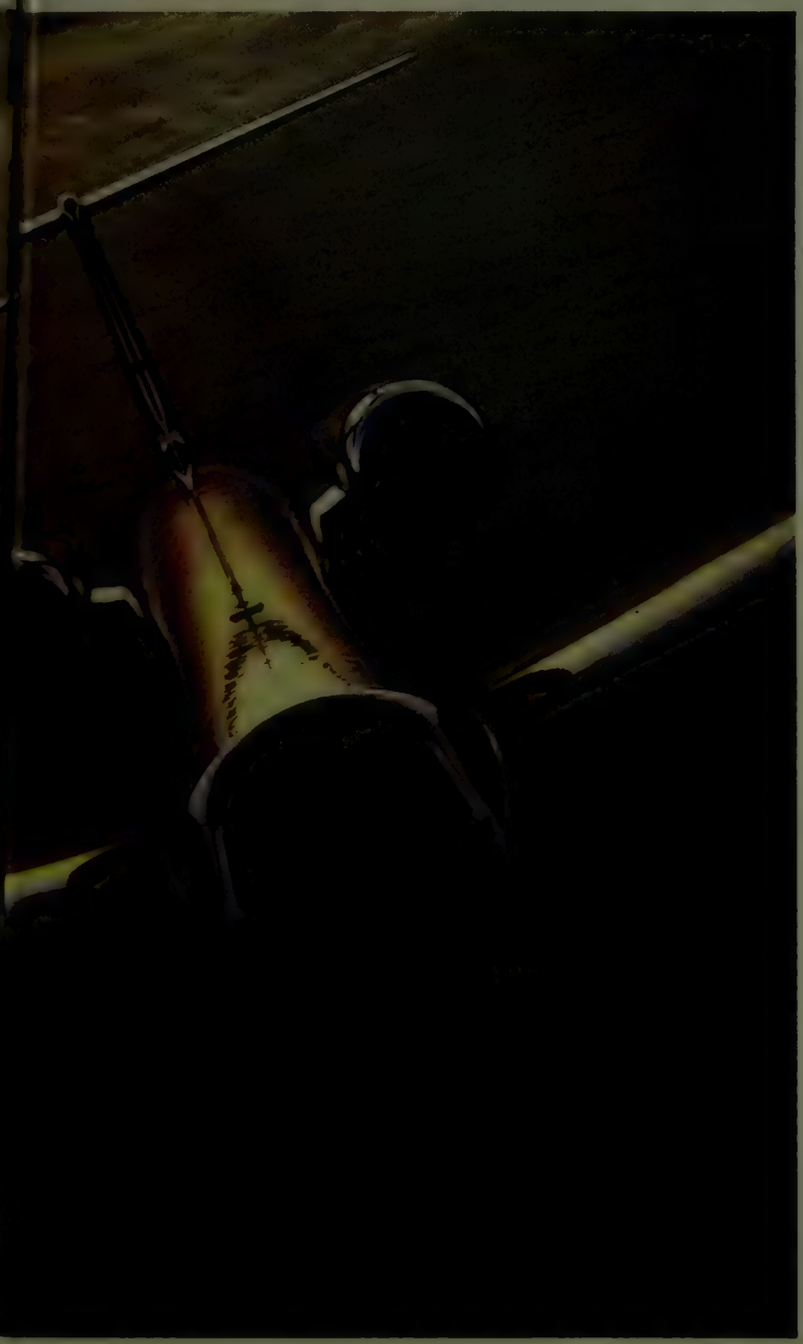

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Americans weren't buying new houses, automobiles or washing machines, but they did shop for bargains in clothing and other home products.

By Amy Feldman

While many 1991 household budgets didn't have the funds for a new automobile, that didn't stop people from treating themselves to things like fancy razors. "Consumers will continue to pay a premium for certain personal products," says Merrill Lynch analyst Deepak Raj. Gillette Co., for example, garnered some 15% of the U.S. market for its Sensor razors and blades, compared with 9% the prior year, despite charging a 25% premium over its older Atra model. Tambrands Inc. was able to raise prices 14% on its Tampax tampons in 1991 without losing brand loyalty or its estimated 55% market share; rival Playtex, which historically sells at a 25%-plus premium to Tampax, should return to that level with an increase of its own in early 1992.

The picture is different for companies that produce commodity goods like toilet paper, garbage bags or detergents. They're losing once loyal customers to the lower-priced products of private-label manufacturers. Paper producers like James River Corp., maker of Northern bathroom tissue and Brawny paper towels, cut prices this year; that company earned a mere $71 million on revenues of $3.5 billion in the nine months to Sept. 29, 1991. Both Kimberly-Clark Corp. and Procter & Gamble Co. lost market share in the diaper business earlier in the year and have been heavily promoting their new diapers.

The apparel downturn began in mid-1989 and bot-

Consumer nondurables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Personal products											
First Brands	37.7*	20.5	12.5	55.5	6.7*	–8.3	NM	–9.0	1,008	44	4.3
Gillette	33.5	43.9	22.5	37.6	12.1	10.3	19.6	29.4	4,584	420	9.2
Stanhome	28.6	21.4	22.1	0.5	15.2	8.5	24.2	–6.1	707	47	6.6
Johnson & Johnson	27.7	28.4	23.2	17.3	11.8	10.9	23.9	27.5	12,093	1,419	11.7
Tambrands	23.4	37.7	35.3	0.9	7.8	3.7	10.4	318.5	638	93	14.6
Colgate-Palmolive	22.6	5.7	5.7	29.2	2.9	8.5	29.6	–68.9	5,964	111	1.9
Kimberly-Clark	21.2	21.3	14.3	22.5	9.7	7.6	15.5	11.7	6,696	481	7.2
Gibson Greetings	19.8	14.3	13.7	19.7	10.3	5.2	11.8	–4.4	530	38	7.2
Procter & Gamble	19.2	19.6	14.7	18.7	11.9	10.2	29.8	8.9	27,579	1,754	6.4
Avon Products	18.4	27.0	20.0	45.7	6.4	6.8	NM	125.3	3,590	131	3.7
Alberto-Culver	18.2	13.1	11.4	17.3	15.2	9.8	25.4	–18.5	874	30	3.5
Carter-Wallace	16.1	11.8	11.6	4.0	8.9	12.5	14.0	–12.9	669	45	6.8
Scott Paper	15.6	1.7	3.8	47.7	12.5	–2.1	NM	–87.2	5,096	36	0.7
Block Drug	15.4	14.1	13.5	4.5	13.0	16.6	13.1	14.9	544	56	10.3
Clorox	15.0	7.2	7.0	32.4	8.9	9.3	NM	–60.7	1,661	57	3.5
Church & Dwight	14.8	21.3	15.8	13.5	12.7	14.2	22.3	64.5	469	25	5.3
Helene Curtis Inds	10.0	7.4	6.1	43.3	20.3	24.0	–24.2	28.1	952	11	1.1
James River Corp Va	8.0	4.6	5.1	35.1	14.2	–16.2	–11.3	169.4	4,701	133	2.8
Dial	6.8	11.1	8.1	65.3	3.5	1.9	–23.7	500.0+	3,585	119	3.3
Service Corp Intl	5.5	15.5	8.5	50.8	10.8	9.3	NM	D-P	607	68	11.3
Duracell Intl	2.7†	11.2	10.9	53.5	12.0	13.2	NA	500.0+	1,559	76	4.9
Medians	18.2	14.3	12.5	29.2	11.8	9.3	12.4	14.9	1,559	68	5.3
Apparel & shoes											
LA Gear	61.3	def	def	0.0	136.2	–17.3	106.1	P-D	727	–35	def
Liz Claiborne	36.7	31.0	30.1	0.2	23.7	18.8	25.2	19.3	1,945	222	11.4
NIKE	36.2	32.8	31.7	4.5	26.8	26.4	50.1	12.7	3,117	302	9.7
Phillips-Van Heusen	32.7	17.5	13.7	49.6	9.6	15.1	10.8	22.0	890	28	3.1
Reebok International	31.9	24.8	21.2	29.4	41.1	28.7	20.2	44.0	2,637	224	8.5

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Lean and debt-free

FEW CLOTHING companies have escaped unscathed from the retailing downturn. But $2 billion (estimated 1991 sales) Liz Claiborne, Inc. has weathered the storm better than most.

At the end of the third quarter the company had $358 million in cash on hand and a 0.2% debt-to-capital ratio (compared with an industry median of 31.9%). Annual sales growth has averaged 24% during the past five years, earnings growth 25%.

Credit Chairman Jerome Chazen, 64, who grew up in New York City during the Depression and has a deep-seated aversion to debt. Chazen runs a lean shop as a result. Unlike competitors V.F. Corp. and Russell Corp., Liz Claiborne contracts out all of its manufacturing to some 300 factories in 36 countries. It has only 6,000 employees in the U.S. and 1,200 in its overseas offices.

This gives Chazen the flexibility to shift production from Hong Kong, where wages have been rising, to Indonesia or Sri Lanka. One way the company keeps in touch with its vast sprawl of manufacturers is through a video system linking its New York City head office, its New Jersey production headquarters and its three Far East offices.

Claiborne executives can view manufacturers' samples on the tube without a long wait for shipping or the expense of air freight. "Efficiency is a funny word," says Chazen, "but if we do a good job of planning, we can save an enormous amount of money."

Chazen, whose background includes 16 years as a buyer and merchandiser of women's clothes, also has a good feel for what the typical department store customer wants. Recently introduced: Elisabeth, Liz Claiborne's line for larger women, sizes 14 to 22. Sales are expected to reach $100 million in 1991, up from $11 million during the 1989 introduction year.

Other fast-growing introductions include Liz & Co. knitwear, whose sales rose from $8 million in 1989 to an estimated $80 million in 1991.

Because of the recession, Claiborne deliberately held back sportswear production growth last year by about 5% to avoid inventory buildup. Result: In a business where the percentage of clothes sold at full price averages around 40%, Liz Claiborne's was 55%.

Chazen expects that new product development will slow in 1992 as Liz Claiborne works to expand its newer lines in accessories and women's clothes and to revamp the less successful men's line to appeal to a younger consumer. An attempt to rush things or to stretch the lean staff beyond its capacity, even during an upturn, says Chazen, would be inefficient. Says Prudential Securities analyst Deborah Bronston, "Liz always errs on the side of being conservative." –A.F.

James Lukoski

Liz Claiborne Chairman Jerome Chazen

A Depression baby, he's always hated debt.

tomed out in early 1991. In 1990 inventories were being worked down, but for most clothing companies discounting has decreased margins. The industry is busy installing computer systems and reworking old manufacturing processes. For example, V.F. Corp., maker of Lee and Wrangler jeans, in 1990 began switching from the standard assembly line to a modular manufacturing system. The new system gives workers greater flexibility and has reduced stockpiles of unfinished goods.

Textilemakers also felt the pressure to become more efficient. Fieldcrest Cannon Inc., maker of towels and sheets, laid off 1,600 workers, consolidated the sluggish rug-and-carpet division and closed its unprofitable electric-blanket business. Even Shaw Industries Inc., the country's largest carpetmaker and the industry's lowest-cost producer, has been hurt by lower demand for residential carpets. In fiscal 1991 (ended June 29), its earnings fell 50%, to $33 million from $65 million the previous year, despite a 7% increase in sales to $1.6 billion from $1.5 billion. But Robinson-Humphrey textile analyst Lorraine Miller expects the company to rebound this year, with projected profits of $66 million on sales of $1.7 billion.

What about 1992? The Conference Board, based in New York, predicts a turnaround will begin in the third quarter: Its forecast shows that, net of inflation, spending on consumer nondurables will rise slowly in the first half and accelerate to annualized growth of 3.4% in the fourth quarter. ■

Consumer nondurables	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Stride Rite	29.0	34.5	32.0	2.1	14.2	11.0	43.0	22.3	561	63	11.3
Gitano Group	27.3*	def	def	38.6	25.5	–5.7	NM	P-D	755	–15	def
Fruit of the Loom	22.9	18.3	9.6	56.5	20.9	4.5	23.8†	–17.3	1,514	83	5.5
Melville	22.0	16.1	16.3	3.0	12.8	20.0	14.4	–8.3	9,728	348	3.6
Leslie Fay Cos	18.1	16.9	12.8	28.1	12.3	4.4	13.8	12.0	866	32	3.7
Russell	18.0	10.8	8.3	26.0	13.9	2.6	16.3	–27.8	742	50	6.8
VF	15.7	11.4	9.2	38.6	13.1	7.8	–4.9	–22.4	2,790	103	3.7
Kellwood	11.9	9.3	8.2	34.3	10.2	10.6	–13.2	338.9	856	19	2.2
Crystal Brands	9.0	def	0.8	55.7	21.0	–1.4	52.2	P-D	844	–16	def
Instrument Systems	7.2	22.2	12.4	50.8	13.7	7.8	NM	59.4	494	15	3.1
Oxford Industries	5.3	6.9	6.2	20.5	–0.9	–6.7	NM	39.3	498	7	1.4
Salant	def	NE	def	121.2	33.3	–10.9	NM	D-D	384	–24	def
Warnaco Group	NE	NE	1.7	124.6	6.5*	NA	NM	NA	560	–30	def
Medians	20.1	13.7	9.4	31.9	14.0	7.8	14.1	12.0	850	30	3.4
Textiles											
Delta Woodside Inds	27.1	21.6	15.3	27.9	25.1	23.7	NM	500.0+	632	32	5.0
Shaw Industries	24.6	15.1	9.3	60.7	25.1	3.8	17.2	–43.8	1,624	32	2.0
Unifi	24.5	18.5	NA	4.6	12.6	NA	34.5	NA	991	43	4.4
Salem Carpet Mills	9.9	def	0.1	44.5	9.9	–12.1	–11.2	P-D	401	–5	def
Dixie Yarns	9.4	def	1.9	34.3	18.3	–10.0	–13.6	P-D	504	–1	def
Guilford Mills	7.1	8.8	7.1	28.0	3.8	4.0	–4.1	D-P	553	15	2.8
DWG	def	def	3.7	68.4	2.4	–0.4	NM	D-D	1,221	–18	def
Medians	9.9	8.8	5.4	34.3	12.6	1.7	–11.2	–43.8	632	15	2.0
Photography & toys											
Mattel	24.1	30.3	20.6	33.9	6.2	9.6	NM	5.2	1,536	103	6.7
Tyco Toys	19.6*	1.9	3.3	54.1	52.2	5.4	NM	–87.8	483	2	0.4
Eastman Kodak	13.1	11.0	7.0	46.6	13.8	4.5	16.6	136.1	19,488	743	3.8
Hasbro	11.6	7.3	8.8	38.8	3.5	29.7	NM	–23.3	1,873	65	3.5
Polaroid	10.7	85.8	63.4	23.5	7.8	6.3	21.7	500.0+	2,033	680	33.5
Fuqua Industries	10.3	def	def	32.3	4.7	–3.2	NM	P-D	919	–39	def
Fisher-Price	NA	NA	def	30.3	NM	1.2	NA	NA	636	–16	def
Medians	12.4	9.2	7.0	33.9	6.2	5.4	NM	–9.0	1,536	65	3.5
Industry medians	18.0	13.6	9.4	32.4	12.3	7.6	10.8	10.3	919	45	3.7
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

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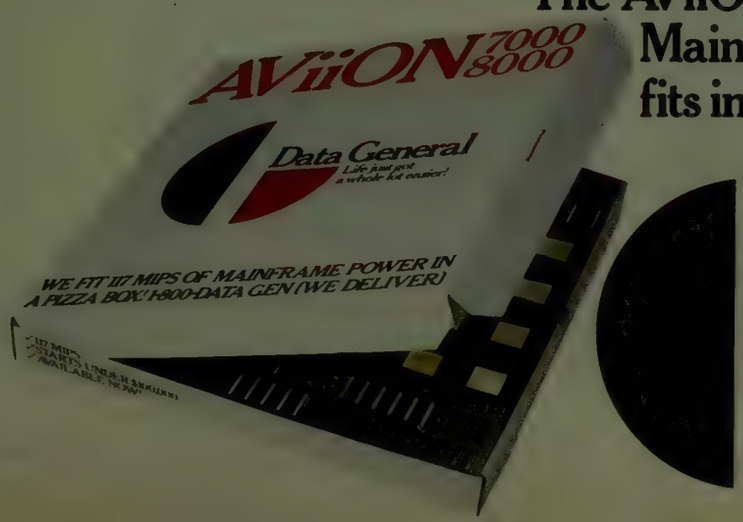

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Electric utilities face likely capacity shortages, no-growth environmentalists and tough competition from independent producers.

By Manjeet Kripalani

The utility industry faces three big challenges: (1) meet the stringent requirements of the Clean Air Act of 1990; (2) plan for the new capacity needed by the end of the decade; (3) remain profitable while accomplishing (1) and (2).

For a few utilities—Potomac Electric, Northern States Power, Kansas City Power & Light, for example—complying with the latest environmental legislation may require simply switching from high- to low-sulfur coal. For others, the issue is more complex: Should they spend several hundred million dollars for new coal scrubbers? Retrofit plants to run on cleaner-burning natural gas? Buy more electricity from independent power producers?

Despite the recession, demand for electricity increased

Electric utilities	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital		Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Northeast											
Potomac Electric	15.2	12.8	6.3	48.6	1.2	8.6	NM	2.2	1,520	202	13.3
General Public Utils	14.2	12.4	7.4	34.7	1.2	8.4	18.6	–3.1	3,226	273	8.5
Pennsylvania P&L	14.0	13.8	7.4	38.7	3.6	3.8	8.5	–4.3	2,527	350	13.9
Pub Svc Enterprise	13.3	12.7	7.4	39.6	1.9	2.9	5.2	4.4	5,037	572	11.4
Orange & Rockland	13.3	14.5	8.4	42.2	2.2	3.0	1.8	15.0	577	52	9.1
Allegheny Power	13.3	12.0	7.4	41.1	6.1	–1.6	NM	1.4	2,272	196	8.6
Consolidated Edison	13.1	12.4	8.1	36.0	1.2	2.7	3.0	7.9	5,898	596	10.1
Atlantic Energy	13.1	11.3	7.0	33.4	4.9	5.3	4.1	–6.6	763	77	10.1
New England Electric	12.8	12.3	6.3	41.7	5.0	9.9	NM	–39.3	1,992	170	8.5
Baltimore G&E	12.1	8.7	5.8	37.8	3.9	11.2	–7.6	–3.1	2,367	223	9.4
Northeast Utilities	11.8	12.5	7.0	45.8	6.4	2.9	–3.9	1.5	2,688	225	8.4
Central Maine Power	11.5	11.5	7.5	42.3	8.5	7.9	2.5	1.7	820	59	7.2
NY State E&G	11.4	11.0	6.2	39.5	3.8	2.8	NM	–5.9	1,528	168	11.0
Commonwealth Energy	10.7	8.7	5.4	44.3	5.2	2.4	–9.7	–16.7	851	28	3.3
Delmarva Power & Lt	10.4	4.5	4.1	38.5	2.8	1.7	–15.2	–65.7	832	37	4.5
Rochester G&E	10.2	9.4	6.6	44.7	2.8	0.1	NM	–4.9	844	61	7.3
American Water Works	10.0	11.6	7.6	49.7	5.4	12.2	NM	54.8	623	77	12.4
Central Hudson G&E	9.7	10.6	7.3	43.5	NM	1.6	NM	–0.8	503	42	8.4
Philadelphia Elec	8.7	11.4	7.4	48.4	3.9	8.2	NM	297.9	3,926	484	12.3
Boston Edison	6.6	11.1	6.2	45.6	1.9	6.1	–11.0	D-P	1,315	92	7.0
Long Island Lighting	5.1	12.1	7.9	57.8	4.3	2.4	–7.8	33.3	2,510	317	12.6
Niagara Mohawk Power	4.6	3.2	4.6	49.4	3.2	6.7	–35.4	–59.3	3,315	103	3.1
United Illuminating	3.1	13.4	5.5	48.9	3.2	10.7	NM	15.5	642	55	8.6
Medians	11.5	11.6	7.0	42.3	3.6	3.8	–11.0	1.4	1,528	168	8.6
North central											
PSI Resources	36.6	17.5	9.2	39.4	NM	1.6	6.3	–2.8	1,032	112	10.9
Cincinnati G&E	17.3	14.7	8.2	41.9	0.7	2.9	7.7	–5.0	1,505	238	15.8
IES Industries	15.4*	8.6	5.4	39.7	1.5*	3.2	15.9*	–54.3	609	40	6.5
DPL	15.0	12.6	8.9	45.3	–0.5	4.0	20.9	–10.6	1,004	135	13.4
Wisconsin Energy	14.9	13.5	8.2	32.4	0.9	3.6	4.1	0.0	1,509	187	12.4
Union Electric	14.9	15.3	8.5	35.0	4.6	2.4	22.7	0.0	2,102	323	15.4
Ipalco Enterprises	14.8	13.5	8.0	31.6	5.4	4.6	NM	0.8	638	99	15.6
Minnesota Power & Lt	14.5	10.0	6.5	35.4	3.7	1.7	NM	–9.9	483	70	14.6
WPL Holdings	13.8	15.8	7.6	30.8	1.5	4.8	NM	–9.7	640	60	9.3
No States Power	13.5	13.1	7.1	30.1	3.4	38.3	NM	35.3	2,166	220	10.2
American Electric	13.5	11.8	6.8	41.9	1.5	–4.3	3.1	–10.4	5,045	493	9.8
Iowa-Illinois G&E	13.2	12.4	6.0	40.4	–2.7	–1.7	NM	7.9	490	58	11.9
Wisconsin Public Svc	13.0	12.9	7.4	33.4	–1.1	7.1	–1.5	8.5	617	53	8.6
Detroit Edison	12.6	19.8	8.9	48.1	3.7	4.4	4.8	11.9	3,443	543	15.8
CILcorp	12.5	11.5	5.7	30.8	NM	12.5	NM	4.2	578	37	6.4

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

about 2% in 1991. Capacity is adequate now, but more capacity will be needed by the turn of the century—and now is the time to start the building process.

What should fuel the new plants? Given concerns for the greenhouse effect, nuclear power, which currently provides 21% of the country's energy through its 112 operating plants, makes more sense than ever (FORBES, *June 11, 1990*). But the more radical enviros are well organized to block new nuclear plants; ground for the last new atomic facility in the U.S., Texas Utilities' Comanche Peak plant, was broken over a decade ago. Unless the political environment changes, new plants will probably be powered by natural gas or fluidized bed coal units. With bed coal units, pollutants come out the bottom in solid form, rather than being emitted from a stack into the sky.

Utilities also face a major challenge from independent power producers, small operators that typically sell from 5 megawatts to 200 megawatts to larger industrial companies. Independents don't have to worry about line maintenance or reading customer meters, and, most important, they escape many regulations. Most can produce power at a cheaper price than big utilities can. In 1990 these independents provided 6% of the country's power, but by the year 2000 they could contribute 12%.

The electric industry could soon face the same type of competition that hit the long-distance telephone carriers during the last decade, when independents such as MCI and Sprint were able to sell service carried on AT&T's lines (FORBES, *Dec. 23, 1991*). Mary Kenkel, of the Edison Electric Institute, worries that as the independent power

Poised for a nuclear comeback

FOR THE LAST nine years Duke Power Co.—the country's seventh-largest investor-owned utility—has been run by Chairman William Lee, now 62. Lee has electricity in his veins: His grandfather was the engineering brain behind Duke, which was founded in 1905.

Grandpa would be proud of the profitability record Lee has compiled. Sixty percent of the Charlotte, N.C.-based company's energy comes from nuclear power, the rest from coal and hydroelectric. The nuclear plants operate for more hours and at a higher capacity than the industry average—an 81% capacity factor, versus an industry average of 70%. Based on 1990 figures, Duke sells its power for 5.3 cents per kilowatt-hour, about 20% less than the national average charge, and still makes good money. Duke's five-year earnings growth of 4% is twice that of the Southeast utility stocks tracked by FORBES.

Duke is one of the few utilities that still engineer and build their own generating plants. When Duke built its Catawba nuclear plant in the mid-1980s, it spent $1,700 per kilowatt of generating capacity, about half what other utilities spent on nuclear plants at the time.

As Duke's nuclear construction tailed off, the company formed a subsidiary, Duke Engineering & Services, to contract out its team of engineers to design and manage construction projects for other utilities. At the moment, the company's 200 engineers have three large outside contracts.

Lee sees another benefit to retaining Duke's construction expertise. He believes that when the nuclear option becomes viable again—he hopes this will happen by the mid-1990s—Duke will have a reservoir of in-house engineering talent.

As befits any manager who takes intelligent risks, Lee's record is not perfect. Like a number of utilities, Duke diversified into nonregulated businesses in the 1980s. The company lost an estimated $30 million, for example, running a coal mine, and sold its interest in a theme park. Uncooperative regulators, too, have been a problem: In November 1991 the Public Service Commissions of North and South Carolina gave Duke only 40% of a requested rate hike.

To Lee, that is a reminder that Duke can never be too efficient. "If you think you're getting good," he says, "remember that laurels wilt fastest when sat upon." –M.K.

Donna Beer/Gamma-Liaison

Duke Chairman William Lee **He has electricity in his veins.**

producers grow, they could start selling their power directly to utilities' retail customers, without compensating the utilities for use of their transmission lines.

Several utilities have come up with a strategy for dealing with the independents: Invest in them. For example, the country's fastest-growing independent, U.S. Generating Inc., is jointly owned by construction giant Bechtel Corp. and Pacific Gas & Electric Co.

In 1991 high dividend yields helped utilities outperform the broad market handsomely. Companies with fairly secure dividends include American Electric, New York State Electric & Gas and Texas Utilities.

Electric utilities	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Midwest Resources	12.1	10.4	5.9	39.8	3.1	4.9	NM	–5.8	960	65	6.8
Cipsco	11.7	12.2	6.5	31.4	–2.4	6.4	NM	8.0	647	73	11.3
Kansas City P&L	11.3	12.3	6.5	33.8	4.5	3.2	1.3†	0.9	786	111	14.1
Ohio Edison	11.1	8.5	6.2	47.0	5.9	6.4	–8.1	–28.3	2,341	240	10.3
DQE	11.1	12.4	6.8	45.8	5.7	3.9	NM	11.7	1,183	134	11.3
Nipsco Industries	8.7	13.0	6.9	35.9	–3.4	–1.2	39.7†	87.3	1,530	144	9.4
Kansas Gas & Elec	8.6	10.6	5.7	42.6	6.0	–1.5	NM	6.6	578	66	11.4
Centerior Energy	7.7	8.6	5.9	39.8	5.4	5.5	–11.7	11.5	2,472	242	9.8
Commonwealth Ed	7.4	8.4	6.8	46.8	1.2	16.4	–12.6	D-P	6,122	610	10.0
CMS Energy	1.0	def	def	56.8	–1.7	2.9	NM	P-D	3,075	–751	def
Illinois Power	def	def	1.4	44.0	3.7	3.0	NM	P-D	1,400	–58	def
Medians	**12.8**	**12.3**	**6.8**	**39.8**	**1.5**	**3.8**	**–12.1**	**0.4**	**1,108**	**112**	**10.6**
Southeast											
Scana	16.0	13.3	7.3	39.3	0.4	0.2	6.5	–28.3	1,143	133	11.6
TECO Energy	15.5	15.2	7.9	33.8	4.7	5.7	7.7	3.8	1,141	142	12.4
Kentucky Utilities	14.7	14.9	10.4	38.2	NM	5.8	8.3	2.4	585	86	14.6
Florida Progress	13.9	12.5	6.8	32.1	4.0	2.9	–1.6	9.6	2,055	182	8.8
Duke Power	13.8	13.3	7.9	33.1	4.0	0.2	5.5	–3.8	3,727	564	15.1
Dominion Resources	13.5	12.3	7.7	42.5	5.6	1.8	2.9	–11.7	3,704	448	12.1
LG&E Energy	12.4	12.7	6.3	37.2	0.8	2.3	1.4	28.3	714	83	11.6
Carolina Power & Lt	11.4	13.0	7.3	39.6	6.4	3.7	NM	18.8	2,693	345	12.8
Southern Co	11.2	11.3	7.8	46.3	3.2	1.4	–7.5	23.4	8,013	767	9.6
FPL Group	5.2	7.0	5.0	38.7	9.4	–13.7	NM	D-P	5,330	240	4.5
Medians	**13.6**	**12.9**	**7.5**	**38.5**	**4.0**	**2.1**	**2.2**	**6.7**	**2,374**	**211**	**11.9**
South central											
Southwestern Pub Svc	16.6	16.4	9.6	34.3	–1.6	–5.8	NM	–3.7	725	115	15.8
Oklahoma G&E	15.0	15.8	8.1	36.8	2.3	6.2	7.2	1.8	1,309	142	10.9
Central & So West	13.4	13.2	7.2	33.0	NM	9.3	NM	2.9	2,934	361	12.3
Texas Utilities	13.2	def	0.7	46.2	2.1	10.3	NM	P-D	4,890	–395	def
Houston Industries	11.3	11.6	7.1	45.3	NM	7.2	–7.4	3.4	4,356	425	9.8
Entergy	5.1	10.8	7.1	46.3	3.7	3.0	13.1	13.7	4,056	441	10.9
Gulf States Utils	0.1	2.3	4.8	38.3	NM	3.0	NM	D-P	1,716	106	6.2
El Paso Electric	def	def	0.9	56.9	7.2	–2.1	NM	D-D	428	–33	def
Medians	**12.2**	**11.2**	**7.1**	**41.8**	**0.3**	**4.6**	**NM**	**2.4**	**2,325**	**129**	**10.3**
Western											
SCEcorp	15.0	14.8	9.1	42.6	7.6	4.4	2.5	12.7	7,371	814	11.1
San Diego G&E	14.8	15.2	9.1	38.9	2.6	2.4	NM	–2.7	1,777	208	11.7
Public Service Colo	14.6	12.2	7.6	36.3	NM	2.3	6.3	–15.6	1,759	131	7.5
PacifiCorp	14.6	13.7	6.7	47.2	4.9	7.3	5.6	–1.9	3,966	480	12.1
Puget Sound P&L	13.0	14.0	9.0	48.1	6.1	6.5	NM	24.1	969	140	14.4
Hawaiian Electric	10.4	6.8	5.2	33.6	11.6	14.0	NM	–26.2	1,097	43	3.9
Montana Power	9.7	12.4	8.3	33.7	6.9	13.6	NM	35.5	922	107	11.6
Pacific G&E	8.8	12.1	7.8	43.1	2.7	4.7	–4.7	18.7	9,595	996	10.4
Portland General	7.1	2.7	3.9	41.9	0.8	5.3	NM	500.0+	880	21	2.4
Public Service NM	0.4	1.2	3.0	42.0	4.9	–0.5	NM	75.0	861	18	2.1
Pinnacle West	def	8.0	5.9	50.5	6.5	–2.7	NM	D-P	1,518	122	8.0
Tucson Electric	def	def	def	106.6	3.5	7.2	NM	D-D	552	–770	def
Medians	**10.1**	**12.1**	**7.1**	**42.3**	**4.9**	**5.0**	**NM**	**15.7**	**1,308**	**127**	**9.2**
Industry medians	**12.4**	**12.2**	**7.0**	**40.4**	**3.2**	**3.7**	**–11.7**	**1.7**	**1,509**	**134**	**10.1**
All-industry medians	**13.2**	**9.9**	**7.6**	**32.4**	**11.3**	**3.7**	**4.5**	**–5.9**	**1,436**	**40**	**2.9**

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

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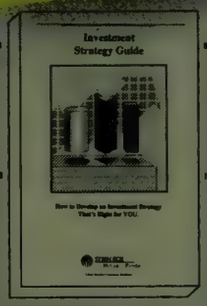

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For the companies that find, refine and deliver oil or gas, last year wasn't so great. The way things look now, 1992 won't be so great, either.

By William P. Barrett

Latest 12-month earnings of energy companies fell more than 5%. This year won't be pretty, either. The drive for market share by oil-producing nations such as Saudi Arabia and the imminent return to the world oil market of Kuwait—and maybe even Iraq—promise to keep production relatively high. The lingering recession is depressing consumption, which in turn will keep prices and margins down across the board. Reflecting all this, Wall Street has recently been beating up on the oils.

Some analysts predict the price of U.S. benchmark crude, about $20 a barrel toward year's end, will fall to near $15 during 1992. That's higher than the $11 bottom hit in 1986, but it will squeeze everybody, from the major internationals to small independents. In Houston, the U.S. energy capital, gloom is increasing.

On the natural gas side, prices remain lower than both true replacement cost and their historical relationship to

Pipe dreams

In 1959 Joseph Williams' first job at family-controlled Williams Cos. was that of a lowly timekeeper. "You get a bird's-eye view," he says of his days monitoring personnel and equipment usage during pipeline construction projects. "You can spot the inefficiencies in a way that no one else has the chance to see them."

Williams, now 58, still has a bit of that timekeeper mentality as chairman and chief executive of the Tulsa-based energy company (estimated 1991 revenues, $2.1 billion). By paring costs, slashing payrolls and finding new ways to use aging assets, he has made his firm one of the brighter spots.

Example: Seven years ago someone came up with the seemingly zany idea of using abandoned gas pipelines as conduits for fiber-optic telecommunications. Williams Cos. jumped at the opportunity. In many places the company ended up laying new conduits—but they were often along pipeline rights-of-way it already owned, chopping capital costs in half. Williams' 11,000-mile fiber-optic network is now the country's fourth largest, behind AT&T's, MCI's and Sprint's. The network should contribute a quarter of Williams' expected 1991 profits of about $100 million.

As for its existing pipeline business, federal data on natural gas pipelines show that Williams' operating costs per unit of gas moved are below the industry average. To add incremental revenues to existing core businesses, Williams has a gas-marketing division that arranges for the transportation of other customers' gas, often through Williams' two big interstate pipelines.

Williams Cos.' five divisions are largely autonomous, so big decisions are made more quickly and closer to the action. Joe Williams says this breeds efficiency, drawing on his seven-year stint in Iran as a project manager in the 1960s. Says he, "It made me more efficient because I didn't have a large staff to depend upon."

Williams Cos.' Joseph Williams on a crowded right-of-way
"Never fall in love with your assets."

Williams detests lazy assets. "Either put 'em to work or we're going to get rid of them," he says. Until a few years ago, Williams Cos. had units involved in coal mining, fertilizer production and real estate. No more. Indeed, even earlier, in 1975, Joe Williams helped make the decision to sell Williams International Group, the company unit where he started. "It was a terrible wrench because the management at the time, which included four Williamses, had grown up in that business," he says. The lesson? "Never fall in love with your assets. If you do, you're a goner."

–W.P.B.

the price of oil. Low prices have somewhat stimulated demand, but not by much. A big event in natural gas last year was the Chapter 11 filing of highly leveraged Columbia Gas. But Columbia was merely the worst case in a troubled industry sector. Transco, Tenneco and Pacific Enterprises all cut their dividends. Among the few standouts: Enron, which turned profits in the normally tough summer months; Coastal Corp., which adroitly managed system expansion, and Williams Cos. *(see box, opposite)*.

One overall plus: Most of the pipeline companies have settled their "take or pay" exposure for high-priced gas from old contracts. And hopes remain that gas will come into its own sooner or later, if for no other reason than environmental concerns over oil.

Low prices and fears of more stringent environmental restrictions will continue to gut domestic energy exploration and development in the U.S., already at its lowest level in years. This is bad news for oilfield service companies. A

Energy	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity		Return on capital		Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
International oils											
Exxon	14.4	17.8	11.7	12.3	4.9	9.5	NM	54.5	107,613	6,035	5.6
Amoco	13.4	11.1	7.7	21.6	3.1	7.3	8.3	–6.0	27,418	1,558	5.7
Mobil	12.0	12.1	9.4	16.6	NM	9.7	8.4	28.3	58,511	2,172	3.7
Texaco	11.3	14.2	10.2	24.8	NM	16.7	NM	3.2	40,635	1,358	3.3
Chevron	9.9	11.9	8.9	21.0	NM	17.6	NM	212.8	39,834	1,887	4.7
British Petroleum	NA	15.4	10.0	31.0	NM	21.4	NA	NA	61,496	2,770	4.5
Medians	**12.0**	**13.2**	**9.7**	**21.3**	**NM**	**13.2**	**NM**	**28.3**	**49,573**	**2,030**	**4.6**
Other energy											
Holly Corp	68.3	49.1	19.8	66.0	8.9	11.6	NM	–51.0	488	12	2.4
Tosco	39.0	12.2	11.0	38.4	10.8	9.5	76.7†	–73.6	2,131	55	2.6
Union Texas Petrol	37.1	66.2	22.1	30.5	–8.8	10.7	NM	500.0+	1,265	313	24.7
Atlantic Richfield	26.5	14.0	8.2	34.1	NM	10.2	31.4*	–32.7	18,003	1,007	5.6
Charter	23.6	10.0	11.0	27.7	–18.8	–9.9	NA	D-P	518	14	2.7
Broken Hill	23.0	20.8	11.1	38.8	15.6	1.8	17.0	8.5	11,770	902	7.7
Mapco	22.4	29.6	12.2	44.3	7.7	15.8	20.2	–1.2	2,813	122	4.3
Phillips Petroleum	18.5	15.6	9.0	41.2	NM	11.4	8.2	500.0+	13,727	512	3.7
Diamond Shamrock	17.7*	11.4	8.5	36.7	4.9	13.8	82.9†	–38.8	2,770	47	1.7
El du Pont de Nemours	15.1	13.0	8.9	24.3	7.1	6.0	17.7	–8.5	39,656	2,111	5.3
Amerada Hess	14.2	11.9	7.9	38.8	NM	16.5	44.8†	16.2	7,097	371	5.2
Ashland Oil	13.2	11.3	7.9	42.3	6.2	9.5	NM	–21.7	9,303	145	1.6
Fina	11.7	3.4	3.4	39.0	11.7	3.7	NM	–59.3	3,672	39	1.1
Unocal	11.4	5.0	4.8	56.3	2.6	4.1	NM	–62.5	10,340	127	1.2
Witco	10.7	10.5	8.4	25.0	3.4	3.5	NM	108.0	1,654	65	3.9
Crown Central Pet	9.6	3.5	3.9	14.2	7.7	–0.1	–16.6†	–46.8	1,946	11	0.6
USX-Marathon	9.3*	10.3	6.7	45.6	12.7*	12.5	NM	NA	13,686	374	2.7
Kerr-McGee	7.3	7.2	5.7	30.8	3.3	4.5	22.2†	–13.1	3,518	117	3.3
Valero Energy	7.1	16.4	11.1	26.1	–15.7	4.6	109.4†	56.4	1,152	109	9.4
Murphy Oil	5.0	def	def	13.3	NM	11.4	NM	P-D	2,008	–19	def
Louisiana Land	4.7	9.0	6.2	35.0	–5.1	3.8	NM	10.4	821	42	5.1
Sun Co	4.2	def	def	13.0	NM	14.0	–22.9	P-D	11,279	–334	def
Howell	3.5	5.2	4.9	34.0	37.5	37.3	NM	–50.4	533	3	0.5
Quaker State	3.4	5.5	5.1	18.1	–2.3	–3.7	NM	–4.7	830	17	2.0
Westmoreland Coal	2.5	def	def	14.9	–1.0	–0.7	NM	P-D	563	–5	def
Tesoro Petroleum	def	def	4.7	35.5	–7.5	8.9	NM	P-D	1,085	4	0.4
Occidental Petroleum	def	def	def	53.6	8.7	–34.5	NM	P-D	13,550	–1,664	def
Petroleum Heat & Pwr	def	NE	def	104.8	17.7	–5.8	NM	D-D	552	–23	def
Pennzoil	def	7.8	5.5	51.6	5.3	12.3	30.9	D-P	2,599	97	3.7
Hadson	def	NE	11.5	114.1	42.7	3.6	NM	D-P	466	0	def
Maxus Energy	def*	def	5.0	70.5	–9.6	26.4	NM	D-D	799	8	1.0
Oryx Energy	NA	24.8	8.2	57.0	NM	9.1	NA	126.1	1,810	199	11.0
Medians	**9.6**	**9.5**	**7.3**	**37.5**	**3.3**	**9.0**	**NM**	**–21.7**	**2,070**	**51**	**2.5**

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

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few, like Baker Hughes and Halliburton, will be able to find business abroad from oil-producing countries in Latin America and even the former U.S.S.R.

Although the current outlook for 1992 isn't promising, many companies have better long-term prospects. Downsizing and restructuring have made virtually all the players in the industry more efficient than they've been in decades. For companies like Amerada Hess, Diamond Shamrock and Atlantic Richfield, any upsurge in the price of oil will quickly boost profits.

Energy	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Oilfield services											
Schlumberger	12.0	20.3	19.1	9.0	NM	19.1	29.6†	27.1	6,002	659	11.0
Dresser Industries	8.8	8.8	8.7	11.1	2.6	14.2	NM	–9.2	4,790	153	3.2
Baker Hughes	8.4	12.2	10.1	26.2	3.1	8.2	43.2†	18.9	2,828	173	6.1
Halliburton	4.7	6.4	6.7	21.7	10.5	5.7	59.7†	–23.4	7,076	143	2.0
Smith International	def	9.3	9.0	53.5	–9.8	23.9	NM	D-P	435	13	2.9
Baroid	NA	9.3	7.4	38.9	–6.1	25.2	NM	17.9	690	24	3.5
Medians	8.4	9.3	8.9	24.0	–1.7	16.6	NM	18.4	3,809	148	3.3
Gas producers & pipeliners											
Coastal Corp	13.0	9.0	6.2	56.2	6.8	10.7	16.1	–13.0	9,884	179	1.8
Enron	10.6	12.6	7.0	45.9	NM	30.7	NM	–13.7	14,632	230	1.6
Williams Cos	8.7	9.6	6.6	45.2	–8.3	11.5	–32.7†	169.6	2,028	115	5.7
Sonat	7.4	9.5	6.9	46.0	–6.6	6.0	NM	26.6	1,591	110	6.9
Mitchell Energy	4.5	8.7	4.6	49.7	NM	26.6	14.8	79.4	860	53	6.1
Transco Energy	1.3	def	2.1	55.0	–4.9	–14.0	NM	P-D	2,743	–33	def
Panhandle Eastern	def	def	def	57.6	NM	–19.4	NM	P-D	2,616	–197	def
American Oil & Gas	def	12.6	10.9	35.5	34.2	–12.9	NM	D-P	385	13	3.5
Burlington Resources	NA	7.1	5.7	27.9	–16.3	–1.6	NA	–0.6	1,789	208	11.7
Medians	5.9	9.0	6.2	46.0	–8.3	5.0	NM	–0.6	2,028	110	3.5
Gas distributors											
Nicor	18.8	16.0	8.3	27.1	–5.3	–5.0	NM	–8.3	1,512	110	7.3
MCN	15.6*	13.1	7.6	39.1	–6.7	4.5	–15.0†	3.1	1,272	40	3.2
Piedmont Natural Gas	14.6	9.0	6.6	37.6	NM	–1.7	15.4	–33.2	400	18	4.6
Peoples Energy	13.6	12.3	7.6	39.1	–4.2	–5.3	NM	–1.0	1,104	67	6.1
UtiliCorp United	13.3	12.2	7.4	45.2	23.0	12.3	4.4	12.4	969	68	7.1
Kansas Power & Light	13.0	11.3	6.9	35.1	–2.8	–4.9	–3.0	0.0	1,125	75	6.7
Southwest Gas	12.4	def	2.9	62.1	11.3	–2.7	NM	P-D	825	–2	def
Washington Gas Light	12.2	11.2	8.3	34.0	NM	–5.1	NM	–9.2	698	46	6.7
Brooklyn Union Gas	11.8	10.6	7.0	39.1	NM	–0.3	NM	1.9	991	62	6.2
UGI	11.7	8.1	5.0	47.8	–7.1	102.4	NM	–14.7	694	23	3.4
Eastern Enterprises	11.5	7.9	5.9	33.6	–7.2	5.1	29.8*	–34.8	981	41	4.1
Laclede Gas	11.4	10.9	8.1	41.9	–2.2	–3.6	–7.8	18.5	454	20	4.4
Atlanta Gas Light	10.8	10.5	7.2	40.9	–0.6	–3.7	2.6	2.5	964	49	5.1
Wicor	10.0	4.1	4.1	27.4	–3.3	–4.8	–11.0	–58.4	665	10	1.5
Medians	12.3	10.8	7.1	39.1	–4.7	–3.2	–13.0	–4.6	967	44	4.9
Integrated gas											
Consol Natural Gas	10.9	9.0	5.7	30.2	NM	–6.0	–3.9	0.5	2,688	165	6.2
Equitable Resources	10.8	13.9	8.8	28.1	5.9	8.4	NM	50.2	681	74	10.8
National Fuel Gas	10.8	9.6	7.3	38.0	NM	–3.0	NM	–10.9	865	49	5.7
Questar	9.2	13.1	8.5	29.8	–2.9	19.9	NM	28.7	620	66	10.6
Oneok	9.1	10.6	7.2	34.6	NM	3.2	NM	9.9	689	36	5.2
Columbia Gas System	7.3	def	def	49.8	–7.5	–17.2	4.3*	P-D	2,438	–815	def
Pacific Enterprises	6.7	9.4	6.5	37.7	7.0	–2.4	NM	D-P	6,763	189	2.8
KN Energy	6.3	1.2	3.4	40.5	NM	3.2	17.6	–88.7	394	4	0.9
Arkla	5.2	2.6	3.1	47.3	22.0	20.2	NM	–77.2	2,822	39	1.4
Enserch	1.3	6.4	5.2	42.9	–2.6	1.4	NM	–33.3	2,832	61	2.2
Medians	8.2	9.2	6.1	37.8	–5.2	2.3	NM	–5.2	1,652	55	4.0
Industry medians	10.7	9.6	7.2	37.7	–4.2	6.0	NM	–4.7	1,810	62	3.5
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

ADVERTISEMENT

Parker

Partnerships In Engineering Creativity

It took a visionary to dream up Robosaurus. But it took Parker Hannifin to bring it to life.

Engineer Doug Malewicki challenges convention. An award-winning inventor who extends the bounds of the possible, Malewicki has designed a host of unlikely vehicles, including a three-wheeled, gas-sipping car that gets more than 150 miles to the gallon. But nothing compares in magnitude to Robosaurus, a huge electro-hydraulic monster that chews up – and then throws away – cars, to the delight of fans at auto shows nationwide.

Standing 40 feet tall, Malewicki's hi-tech Tyrannosaurus isn't just whimsy. Robosaurus was designed to draw crowds – as it tours arenas and captures imaginations.

And that was the engineering challenge: Robosaurus had to pack maximum entertainment value into a highly reliable design that could be easily transported and erected. Its 58,000-pound steel skeleton had to simultaneously grip, lift, and crush two-ton cars, while ensuring the safety of the operator and the audience.

To give Robosaurus life, Malewicki relied on the engineering know-how of Parker Hannifin Corporation, the world's largest manufacturer of motion-control components and systems. Working with a team of Parker engineers, Malewicki tapped the talents of eight of their divisions and borrowed ideas from Parker technologies spanning industries as diverse as aerospace and automotive manufacturing.

Engineers who have seen Robosaurus in action call it a "powerful demonstration of state-of-the-art hydraulic technology." Powered by a 500-horsepower, twin-turbo diesel engine, and controlled by a 500 gallon hydraulic fluid system, Robosaurus required some of Parker's most advanced components in order to replicate the menacing action of the original Tyrannosaurus.

The jaws alone proved an engineering challenge. Their elongated reptilian design provided little leverage and no mechanical advantage. But they still needed to exert 15,000 to 20,000 pounds of precision force.

Parker Hannifin's Fluidpower Group came up with the solution. Working closely with Malewicki and his people, Parker engineers designed an ingenious turnkey system of components that included cylinders, filtration systems, control valves, pumps, motors, hoses, fittings, and seals. The result? Robosaurus can adeptly scoop up a car, hold it firmly, and then crunch it in its jaws before tossing it to the ground.

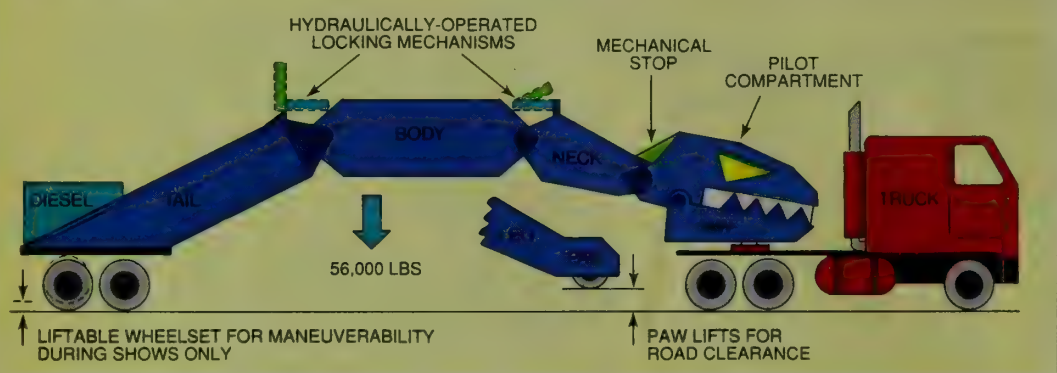
"In essence, Parker's engineers became a part of our design team," says Malewicki. "They understood our mission in making Robosaurus an entertainment and engineering marvel. They realized our needs in terms of safety, reliability, appearance, and profitability. With creativity and dedication, they worked hard to make our dream work."

Parker does a good deal more than provide unique fluidpower systems for Robosaurus. The Company utilizes the same technologies that brought Robosaurus to life in a great many useful, productive applications – from factory automation and robotics, to aviation and marine applications, to farm and construction machinery of all kinds.

The type of partnership employed to develop Robosaurus is the driving force behind Parker Hannifin's worldwide pre-eminence in motion-control components and systems. With more than 800 product lines for hydraulic, pneumatic, and electromechanical applications in some 1,200 industrial and aerospace markets, Parker operates 200 manufacturing plants and administrative offices. In addition, the Company supports more than 4,500 distributors serving more than 258,000 customers in every corner of the world.

Numbers aside, however, it's the meshing of customer service, technological expertise and creative problem-solving that makes Parker components and systems the first choice for a wide range of global customers – from aircraft to machine-tool manufacturers, including creative engineers like Doug Malewicki.

TRAVELING ROBOSAURUS



Some engineering challenges are real monsters

Innovative engineer Doug Malewicki envisioned a unique and challenging assignment. With Parker's cooperation, he created a monster – an electrohydromechanical monster named Robosaurus.

Robosaurus demolishes cars and thrills auto extravaganza crowds. He raises them 50 feet from the ground. He bites them in half, rips off their roofs, and crushes them in his monster-sized hands before hurling the mangled carcasses to the ground.

Getting this fire-breathing, fully-movable, car-crushing monster operational called for the contributions of eight Parker divisions.

Parker engineers assisted Malewicki and his team in designing a unique turnkey system of cylinders, valves, pumps, motors, filters, seals, hoses, and fittings. And Parker's support system keeps Robosaurus in shape as he tours the world.

This type of hands-on involvement exemplifies the Company's partnerships with industrial, automotive, and aerospace manufacturers the world over – partnerships which have helped make Parker a $2.44 billion-per-year leader in the motion-control industry.

For Parker's fiscal 1991 annual report, write: Parker Hannifin Corporation, Dept. FB-16A, 17325 Euclid Avenue, Cleveland, Ohio 44112-1290. For product information, customers may call 1-800-C-PARKER.

(PH-NYSE)

A partnership in vital technologies Parker

Movie companies, TV networks and publishers have been forced to audition the same act: cost-cutting.

By Kathryn Harris

Grimly, the free-spending media and entertainment companies of the 1980s spent much of 1991 tightening their belts. Through layoffs and asset sales, Rupert Murdoch's News Corp. reduced its work force by 20%. Both the *Dallas Times Herald* and the *Arkansas Gazette* (the oldest newspaper west of the Mississippi) ceased publication. Shortly after Robert Maxwell's death, his publishing empire sank into a sea of debt and controversy. And John Kluge, America's wealthiest man, put his 68%-owned Orion Pictures into Chapter 11.

Of the three major networks, only ABC was profitable in 1991. Network viewership continues to erode. Prime-time advertising revenues declined to $4.7 billion in 1991, down from nearly $5 billion the previous year, according to Paul Kagan Associates Inc. of Carmel, Calif. By contrast, cable fared relatively well, although the subscriber growth rate slowed to about 4% in 1991, compared with 5% in 1990.

"Cable is not recession-proof," said Bear, Stearns analyst Kenneth Goldman, noting that the number of pay-TV subscriptions declined in 1991. Still, Goldman predicts that cable operators' cash flow will increase by 10% to 13% annually for the next few years.

The newspaper industry endured a bleak year. First Boston's Kevin Gruneich predicts revenues won't be much better than flat in 1992. Susan Decker, an analyst for Donaldson, Lufkin & Jenrette, believes the industry hit bottom in the third quarter of 1991 and could show a 5% gain in revenues during the second half of 1992.

Ironically, 1991 ranked as the movie industry's third-best year at the box office. With fewer independent producers, more markets opening up abroad and a "new austerity" at the big studios, Bear, Stearns Managing Director Michael Garstin predicts that Hollywood will soon be making money again.

Television is king

AGAINST a backdrop of eroding network fortunes and a persistent recession, the performance of King World Productions is all the more striking. For the year ended Aug. 31, 1991, the TV program syndicator increased its profits 11%, to $93 million, on revenues of $476 million. As the leading distributor of "first-run" syndication shows, King World sells new shows on a market-by-market basis.

The King technique: a lean, 14-person sales force led by King World Chairman Roger King, 47. The group crisscrosses the country persuading stations to sign long-term contracts for *Wheel of Fortune, Jeopardy!* and *The Oprah Winfrey Show.* They're very persuasive. The first two programs have been sold in markets serving 84% of the nation through the 1993-94 season. *Oprah* has been sold in more than 77% of the country through 1995.

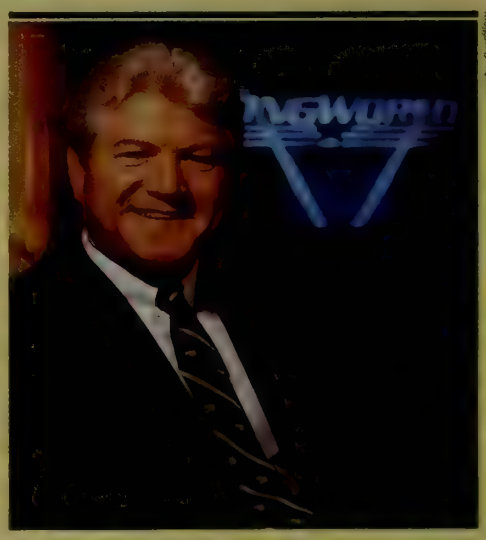
King World, as the distributor, gets a share of the revenues of these highly popular shows that amounts to over $350 million each year. As a result, King has ample cash ($242 million as of Aug. 31, 1991) to branch into other areas of the industry or create new programming of its own.

That part of the business is directed largely by President and Chief Executive Michael King, 43, the chairman's brother. *Inside Edition,* a tabloid-style news program, is his first in-house production. Launched in January 1989, it ranks in the top ten in first-run syndication.

In November 1991 King World acquired rights to *Hollywood Squares.* The company has also sold a prime-time pilot to CBS based on *Topper,* the 1950s TV comedy.

King's one toe stub was its 1988 purchase of a Buffalo TV station (WIVB-TV, a CBS affiliate) for $100 million. Losses at the station widened to $7.8 million in 1991, and the station fell out of compliance with its loan covenants. Talks have been under way to restructure the debt.

Buffalo aside, King World remains a favorite on Wall Street. With a payroll of fewer than 500 employees, King World made nearly as much last year as the ABC television network. NBC and CBS together were expected to lose nearly $500 million in 1991. –K.H.



Morgan B. Ayers

King World Productions' Michael King **Producing in-house shows.**

Who knows your disability insurance needs best?

Entertainment & information	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Broadcasting & cable											
King World Prods	65.7	61.5	38.5	28.5	26.3	4.9	40.7	10.7	476	93	19.6
CBS	30.0	def	def	53.9	–8.6	–5.9	–26.3	P-D	3,017	–251	def
Capital Cities/ABC	15.4	11.7	9.5	31.7	29.1	0.6	24.4	–18.0	5,374	398	7.4
Viacom	def†	def	2.7	76.4	25.6	8.0	NA	D-D	1,679	–105	def
Tele-Communications	def	def	2.8	84.7	49.6	8.0	NM	D-D	3,792	–200	def
Comcast	def	NE	def	89.2	46.5	10.4	NM	D-D	709	–161	def
Cablevision Systems	NE	NE	def	161.4	37.4	8.8	NM	D-D	597	–214	def
Multimedia	NE	NE	24.9	170.1	7.4	6.8	54.9†	8.1	508	51	10.0
Turner Broadcasting	NE	NE	7.7	104.3	29.5	8.5	NM	D-D	1,442	12	0.8
Medians	def	def	2.8	84.7	29.1	8.0	NM	D-D	1,442	–105	–5.3
Movies											
General Cinema	36.5	7.3	7.6	32.3	21.3	5.1	24.4	89.4	2,220	118	5.3
Paramount Commun	26.2	3.9	4.1	13.2	NM	6.7	22.6	–89.1	3,907	149	3.8
Walt Disney	24.5	18.1	12.1	30.1	22.1	5.8	22.1	–20.3	6,182	637	10.3
LIVE Entertainment	20.8	def	def	57.3	28.3	–23.0	32.6	P-D	506	–86	def
Handleman	18.3	10.7	10.2	33.5	12.3	4.7	NM	–27.6	784	25	3.2
Commtron	13.5	12.0	11.7	0.0	5.1	–4.8	14.9	–16.7	528	8	1.5
Time Warner	def	def	2.7	44.3	26.7	5.3	NM	D-D	11,922	–178	def
Orion Pictures	def	def	def	68.5	21.0	32.6	NM	P-D	645	–137	def
AMC Entertainment	def	def	6.9	82.4	11.7	–0.5	NM	D-D	418	–1	def
Medians	18.3	3.9	6.9	33.5	21.0	5.1	14.9	–89.1	784	8	1.5
Publishing											
Pulitzer Publishing	66.0	16.3	10.2	49.0	7.8	–3.0	7.1	–56.3	395	11	2.8
Reader's Digest Assn	45.2	31.8	30.2	1.8	12.9	14.7	26.7	14.8	2,399	214	8.9
Washington Post	28.9	12.9	11.2	9.1	5.9	–4.7	15.3	–34.2	1,383	117	8.5
Affiliated Pubs	26.6	3.6	4.0	41.2	9.4	–4.2	NM	–76.1	521	7	1.4
Dun & Bradstreet	25.5	23.6	23.5	0.0	12.1	0.7	8.6	–1.1	4,700	490	10.4
Commerce Clearing	22.6	13.7	12.2	4.1	9.8	0.1	–4.0	–14.4	704	30	4.3
Gannett	21.2	15.7	11.4	43.3	8.9	–3.4	9.7	–13.7	3,385	322	9.5
Dow Jones	20.9	6.4	5.7	23.8	11.8	–0.3	NM	–26.0	1,712	92	5.4
Knight-Ridder	20.9	14.0	8.5	33.3	5.7	–3.8	10.6	–22.6	2,237	128	5.7
New York Times	19.0	2.3	1.8	18.9	4.6	–4.7	NM	–28.9	1,707	25	1.4
RR Donnelley & Sons	17.4	12.8	8.6	21.8	11.6	18.6	8.9	–9.0	3,892	205	5.3
Times Mirror	16.9	7.0	5.8	31.6	4.7	0.4	–5.1	–32.7	3,586	141	3.9
McGraw-Hill	16.0	16.2	11.3	32.4	5.1	1.8	NM	500.0+	1,933	154	8.0
McClatchy Newspapers	14.7	7.8	6.4	10.6	11.0	3.8	9.9	–12.2	427	25	5.8
Banta	14.6	9.4	7.5	22.5	19.3	–3.2	6.1	16.8	562	20	3.5
Central Newspapers	14.3	8.8	7.7	0.8	3.6	–4.0	2.6	–25.4	420	24	5.7
Western Publishing	14.0	1.4	1.6	0.0	11.2	–2.1	–12.7	–86.2	489	3	0.7
Houghton Mifflin	12.3	10.7	9.6	18.6	8.5	8.7	NM	–10.8	465	22	4.8
Meredith	11.7	7.9	7.3	0.0	7.3	–0.5	15.2	–11.8	738	25	3.4
American Greetings	11.3	13.0	10.1	21.7	6.5	9.8	NM	14.9	1,470	87	5.9
EW Scripps	11.0*	9.5	6.9	26.3	7.6	–0.5	NM	8.0	1,291	61	4.7
Tribune	10.8	def	def	30.0	4.7	–18.5	NM	P-D	2,034	–82	def
AH Belo	9.8	8.4	5.8	44.8	2.3	–1.7	NM	–22.3	428	19	4.5
Media General	8.1	def	def	45.5	NM	–4.8	NM	P-D	593	–68	def
Medians	16.4	9.4	7.6	22.1	7.7	–1.1	–4.6	–18.3	1,337	28	4.8
Advertising											
Interpublic Group	21.7	17.7	14.0	24.4	15.2	20.0	17.1	9.9	1,541	86	5.6
Omnicom Group	19.6	17.9	14.3	47.4	11.3	3.2	12.7†	–0.5	1,184	54	4.6
ADVO-System	16.6	23.1	25.3	0.0	8.4	6.5	NM	11.6	697	19	2.8
Grey Advertising	14.0	11.4	12.5	2.6	16.1	14.0	11.1	0.8	514	14	2.7
WPP Group	2.8	def	2.8	41.7	NM	–5.2	13.8	D-D	2,176	2	0.1
Medians	16.6	17.7	14.0	24.4	11.3	6.5	12.7	0.8	1,184	19	2.8
Industry medians	15.4	8.4	7.6	31.6	11.0	0.7	–0.7	–22.6	1,291	25	3.8
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

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After being burned by foreign loans, junk bonds and real estate, the financial services industry was rescued by individual investors.

By Matthew Schifrin

After four dismal years, financial services companies made a strong recovery in 1991. Yes, there were still those troubled thrifts and the recession. But falling interest rates were a boon not only for spread-sensitive outfits, like Fannie Mae, Sallie Mae and banks and thrifts, but also for brokerage firms that benefited from the long-awaited return of individual investors to the stock and bond markets.

With rates on six-month certificates of deposit dropping below 5% on average, money flooded into bond funds and stocks—investments that offered the promise of higher returns. There was also a deluge of new issues. The final tally of capital raised in 1991 could total nearly $15 billion, similar to 1986, the last record year.

Through the first 11 months of 1991 the Standard & Poor's brokerage stock index doubled. In contrast, the S&P

"What's the payback?"

ONE OF the most profitable savings and loans in the nation, $25 billion (assets) Golden West Financial has averaged an almost 20% return on equity over the past five years and a nearly 18% return over the last 12 months.

The Oakland, Calif.-based thrift has an impressive 1.2% ratio of problem assets to total loans, versus a 4% average for the thrift industry, says Bruce Harting, an analyst at Salomon Brothers. Moreover, general and administrative expenses as a percentage of gross income are 10%, compared with 18% for the industry.

Richard Morgenstein

Golden West's Herbert and Marion Sandler

A $25 billion thrift with mom-and-pop conservatism.

What's the secret? "We keep our business very, very simple," says President Marion Sandler, the wife of the husband-and-wife management team. That means no junk bonds in the portfolio and an almost religious adherence to the traditional thrift business of taking in deposits and making home mortgages. Adds Chairman Herbert Sandler, "Our expenses are low because we are constantly asking ourselves, 'What is the payback?' "

So no corporate jet or company limos. Advertising is done in-house, and an intercom at the front desk serves as the receptionist. "We don't need someone whose only function is to greet people and do nothing all day," says Marion.

Nor do any of Golden West's 230 World Savings & Loan branches have automated teller machines. One reason: The average age of Golden West's customers is 58, and they are intimidated by the machines, says Marion. No wasted space, either. The average branch office size is 3,250 square feet, compared with 10,000 square feet for other financial institutions.

All this penny-pinching hasn't come at the expense of Golden West employees. The thrifty Sandlers believe the only way to maintain quality is to motivate their workers. To that end, many managers and employees are awarded bonuses if they meet their operating budgets.

One way the Sandlers check quality is by hiring retirees to act as customers and make surprise inspections at local branches.

Although California's economy and housing industry are uncertain, Wall Street is giving the Sandlers a standing ovation for their performance. Shares of Golden West trade at 1.7 times book value, while the thrift industry is priced at a slight discount to book value.

The Sandlers' personal reward for their efficiency: Their 8% or so stake in Golden West is worth more than $250 million.

–M.S.

Financial services	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Multinational banks											
First Chicago	11.1	6.3	6.6	35.1	7.2	–10.1	NM	–47.4	5,116	189	3.7
BankAmerica	9.6	16.8	12.5	36.1	NM	4.2	NM	33.9	12,470	1,051	8.4
Bankers Trust NY	7.9	24.3	14.1	45.9	11.5	–10.9	NM	0.1	7,042	653	9.3
JP Morgan & Co	5.5	20.8	12.6	48.3	11.4	0.5	NM	37.2	10,438	1,036	9.9
Citicorp	5.2	def	2.0	69.8	12.9	–17.5	NM	D-D	32,952	–1,163	def
Chemical Banking	0.5	10.0	7.8	43.4	9.2	–7.5	NM	1.2	7,386	383	5.2
Continental Bank	def	def	def	39.4	3.1	–15.2	NM	D-D	2,465	–92	def
Manufacturers Hanover	def	3.3	5.1	41.6	–0.6	–8.8	NM	–69.0	7,044	163	2.3
Bank of Boston	def	def	def	42.6	14.0	–27.7	NM	D-D	4,536	–336	def
Chase Manhattan	def	12.7	8.5	50.7	6.9	–11.2	NM	D-P	12,328	578	4.7
Medians	2.8	8.2	7.2	43.0	9.0	–10.5	NM	D-P	7,215	286	4.2
Regional banks											
Wells Fargo	22.0	13.2	10.0	52.3	11.7	3.6	27.6	–43.7	5,960	409	6.9
State Street Boston	19.6	20.1	17.3	23.9	19.3	4.4	14.2	23.6	1,319	142	10.8
Bancorp Hawaii	19.2	16.9	15.2	9.8	16.5	16.3	16.9	8.2	1,038	108	10.4
SunTrust Banks	17.8	15.6	14.1	16.0	6.6	1.0	11.3	3.7	3,414	361	10.6
Fifth Third Bancorp	17.7*	17.0	16.2	1.5	25.8	7.1	12.6	13.7	881	133	15.1
Banc One	17.5	16.8	15.0	17.8	16.4	11.4	12.0	11.9	3,731	494	13.2
National City	17.1	12.1	11.7	11.0	9.6	–1.1	9.8	–26.2	2,634	204	7.7
Wachovia	17.0	15.9	15.5	5.1	8.8	0.1	8.7	6.0	2,494	311	12.5
Old Kent Financial	16.7	14.7	13.6	10.3	16.3	–1.1	5.4	0.0	862	90	10.4
First Union	16.5	10.0	9.4	40.9	16.7	7.8	NM	–5.7	4,175	285	6.8
NCNB	16.1	12.9	11.1	29.8	30.9	1.9	12.5	–15.4	6,702	433	6.5
Comerica	16.1	16.5	15.0	20.4	6.7	8.3	18.3	–1.1	1,400	143	10.2
Michigan National	16.1	4.5	4.6	8.2	10.2	11.8	14.4	–49.6	1,135	34	3.0
SouthTrust	16.0	15.3	13.4	18.4	17.5	10.8	6.6	20.6	927	86	9.2
NBD Bancorp	15.9	14.8	14.1	17.0	13.2	–0.7	12.6	1.6	2,640	276	10.5
Union Bank	15.8	11.9	9.7	23.2	29.8	0.4	16.7	–21.8	1,672	115	6.9
Society	15.8	16.2	14.8	14.5	14.9	4.4	9.5	8.3	1,649	165	10.0
Northern Trust	15.8	17.6	15.0	20.0	13.9	0.5	NM	6.2	1,298	125	9.6
Norwest	15.7	19.3	11.2	58.6	6.7	25.2	NM	7.1	4,212	360	8.6
US Bancorp	15.5	14.9	13.1	46.6	20.6	7.4	14.4	–0.2	2,010	188	9.3
Firstar	15.4	16.3	13.1	14.6	10.4	24.1	NM	2.7	1,192	124	10.4
Manufacturers Natl	15.4	15.8	15.2	6.7	14.3	5.0	9.0	7.7	1,183	118	10.0
Marshall & Ilsley	15.2	14.7	13.2	21.6	11.9	3.0	5.5	13.0	845	89	10.6
KeyCorp	14.8	14.8	13.3	26.3	22.1	28.5	5.7	7.5	2,195	173	7.9
First of America Bank	14.6	13.5	12.5	10.1	24.6	6.7	4.1	5.9	1,445	132	9.2
C&S/Sovran	14.5	1.2	2.4	22.1	11.9	–2.5	NM	–89.4	5,115	51	1.0
CoreStates Financial	14.3	6.9	6.8	42.4	17.3	3.3	–11.4	–62.5	2,498	95	3.8
South Carolina Natl	14.2	9.1	8.8	13.0	10.4	6.7	9.4	–22.3	728	44	6.0
Signet Banking	14.1	4.4	4.6	28.2	12.8	–9.1	NM	–51.6	1,306	33	2.5
AmSouth Bancorp	14.0	12.8	11.9	16.5	15.7	0.2	NM	26.8	894	77	8.6
Huntington Bcshs	13.8	14.3	13.1	14.2	15.5	–1.6	4.4	31.2	1,230	113	9.2
Commerce Bcshs	13.8	12.6	12.2	7.1	4.7	2.1	13.2	3.6	603	59	9.8
Barnett Banks	13.3	4.6	5.4	25.7	16.0	3.4	NM	–53.1	3,335	86	2.6
Crestar Financial	12.4	3.3	4.1	17.0	11.4	1.6	NM	–71.8	1,254	27	2.2
INB Financial	12.1	9.8	9.8	10.3	12.6	0.2	NM	–4.2	655	46	7.0
First Tennessee Natl	11.8	14.9	12.8	23.0	8.0	2.5	NM	26.5	750	59	7.9
PNC Financial	11.7	4.2	4.3	25.9	25.8	–6.6	–21.2	–53.2	4,556	121	2.7
Security Pacific	11.3	def	def	70.1	14.6	–8.3	–16.1	P-D	9,549	–723	def
Hibernia	11.1	def	def	28.6	26.6	–2.5	NM	P-D	764	–116	def
Boatmen's Bancshs	11.0	12.3	11.6	15.0	2.8	4.9	6.1	5.7	1,579	146	9.3
UJB Financial	10.5	def	0.3	8.2	16.4	–7.5	NM	P-D	1,234	–3	def
Fleet/Norstar Finl	10.5	def	2.8	48.9	16.4	1.8	NM	P-D	4,025	4	0.1
Meridian Bancorp	10.3	13.7	12.2	14.6	14.6	–4.7	–19.0	246.3	1,212	95	7.8
Bank of New York	9.8	3.6	4.5	30.0	31.8	–16.0	NM	–72.7	4,538	121	2.7
Republic New York	9.5	14.3	8.7	60.3	18.9	0.3	NM	–19.7	2,683	219	8.2

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

500 gained 25%, the Nasdaq 50%. Retail-oriented firms like Merrill Lynch, PaineWebber and A.G. Edwards posted healthy stock gains, while shares of San Francisco-based discount broker Charles Schwab nearly tripled.

The top company among the brokerage firms that were tracked in this survey, Morgan Stanley, continued to do well in 1991, thanks mainly to trading profits. If the economy starts to pick up this year and corporations become more acquisitive, 1992 could be even better for Morgan Stanley, one of Wall Street's leaders in mergers and acquisitions.

The mergers of Manufacturers Hanover and Chemical Banking, BankAmerica and Security Pacific, and NCNB and C&S/Sovran buoyed speculation in bank stocks. But analyst James Marks at SNL Securities in Charlottesville, Va. doubts whether all the big bank consolidations will pro-

Financial services	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
First Security	9.1	10.7	10.1	14.9	3.2	3.7	33.7	–0.6	709	52	7.3
Dominion Bankshares	8.8	def	def	18.8	18.7	–4.3	NM	P-D	1,061	–13	def
Midlantic	6.6	def	def	36.7	13.9	–16.6	NM	D-D	2,113	–475	def
Mercantile Bancorp	6.2	14.2	13.0	18.4	3.3	4.1	NM	21.8	781	65	8.3
BayBanks	5.9	def	def	9.7	13.8	–3.2	NM	D-D	1,047	–29	def
First Fidelity Bncp	4.3	14.7	11.8	35.5	10.3	–7.0	NM	D-P	2,848	216	7.6
Ameritrust	3.4	def	def	23.1	12.8	–7.1	NM	P-D	1,180	–36	def
First Interstate Bncp	2.7	def	0.9	53.4	4.2	–11.7	NM	D-D	5,380	–137	def
MNC Financial	2.3	def	def	33.6	21.1	–28.6	NM	D-D	2,207	–185	def
Riggs National	0.5	def	def	53.3	11.1	–13.1	NM	P-D	634	–131	def
Shawmut National	0.4	def	def	39.1	12.2	–15.5	NM	D-D	2,413	–375	def
First Bank System	0.0	14.4	9.3	37.5	–4.2	–15.9	NM	D-P	1,880	173	9.2
First American Corp	def	def	def	4.4	10.3	–24.5	NM	D-D	572	–8	def
Mellon Bank	def	3.6	6.0	41.6	1.2	–8.5	NM	–78.8	3,188	109	3.4
Valley National	def	7.6	7.5	21.3	2.9	–1.7	NM	D-P	1,127	34	3.1
Premier Bancorp	def	7.5	7.4	21.2	–3.1	–4.6	NM	95.8	381	12	3.0
First City Bncp Texas	NA	def	def	12.4	NA	–17.8	NA	P-D	1,158	–355	def
Medians	**13.8**	**12.2**	**9.9**	**20.8**	**13.8**	**0.3**	**NM**	**–2.7**	**1,360**	**93**	**7.1**
Thrift institutions											
Golden West Finl	19.7	17.7	10.8	40.7	10.0	7.2	NM	19.6	2,237	217	9.7
Standard Fedl Bank	12.3*	11.6	9.9	14.3	7.1	–4.3	–13.0†	37.2	882	55	6.2
HF Ahmanson	11.0	7.7	5.8	46.6	11.0	–0.9	–10.6	–32.6	4,713	182	3.9
Gt Western Financial	10.4	11.0	6.6	56.6	3.5	–0.7	–13.7	101.1	4,073	230	5.7
Washington Mutual	7.6	15.9	11.0	25.8	11.3	1.5	NM	D-P	724	64	8.8
FirstFed Michigan	7.0	3.1	4.7	57.5	–1.6	–12.7	–35.4	–57.4	965	14	1.4
Talman Home Federal	5.9*	8.9	7.8	0.0	–2.3	–1.4	–15.4†	95.1	533	31	5.8
GlenFed	1.5	def	def	44.7	2.8	–24.4	NM	P-D	1,946	–233	def
CalFed	0.7	def	def	30.0	NM	–19.8	NM	D-D	1,910	–186	def
HomeFed	0.7	def	def	47.1	12.7	–13.7	NM	D-D	1,663	–948	def
Commercial Federal	def	10.5	9.6	23.7	10.0	5.9	NM	D-P	528	17	3.2
TCF Financial	def*	7.8	8.0	14.6	–4.5	–6.8	NM	D-P	448	12	2.7
Coast Savings Finl	def	12.5	16.9	20.3	9.2	–15.3	NM	D-P	960	29	3.0
Dime Savings Bank FSB	def*	def	def	49.9	8.3	–9.4	NM	D-D	1,011	–51	def
Anchor Bancorp	def*	22.5	10.1	25.6	5.5	–6.3	NM	D-P	856	46	5.4

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Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

vide the promised economies of scale. Bankers are "lemmings in neckties," warns Marks. One big bank conspicuously left out of the merger game has been Citibank, which is generally regarded as too big and sick to merge.

How about the thrifts? Declining interest rates were partially offset by the weak housing market and new government-imposed capital requirements. But the overall industry improved in 1991. For example, latest 12-month earnings per share at Golden West Financial, a well-managed California thrift, were $3.42, about 20% better than the previous 12 months *(see box, p. 144)*.

The mortgage-servicing business was a big boost to well-capitalized thrifts. Examples include Standard Federal Savings in Michigan and Great Western in California. Freddie Mac and Fannie Mae also benefited from increased demand for mortgage-backed securities. ■

Financial services	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Northeast Federal	def	def	4.1	0.3	NM	–15.4	NM	D-D	421	8	1.9
Meritor Savings Bank	def	def	def	58.9	–12.8	–39.1	NM	D-D	568	–65	def
American Capital	def	NE	def	87.3	6.5	–18.1	NM	D-D	460	–59	def
People's Bank	NA	def	def	0.0	10.1	–12.3	NA	D-D	632	–151	def
Medians	**0.7**	**7.7**	**5.8**	**30.0**	**6.5**	**–9.4**	**NM**	**P-D**	**882**	**14**	**2.7**
Brokerage & commodity											
Morgan Stanley	27.5	18.8	14.5	45.8	28.5	8.2	18.1	9.8	6,475	401	6.2
AG Edwards	16.8	19.5	19.9	0.0	8.9	21.0	6.9	33.8	774	77	9.9
Bear Stearns Cos	15.5	16.4	12.1	38.9	11.3	2.0	NM	62.8	2,415	172	7.1
Commercial Metals	11.6	6.0	5.4	18.7	6.6	1.1	8.1	–50.7	1,150	12	1.0
Salomon	9.4	14.8	10.3	64.5	9.3	0.2	NM	47.5	9,548	521	5.5
Charles Schwab	9.0†	21.1	15.1	40.3	22.9	17.8	NA	66.2	729	34	4.7
Merrill Lynch	5.9	16.4	11.8	56.0	8.6	7.6	–8.8	D-P	12,052	556	4.6
PaineWebber Group	def	def	3.5	39.5	8.7	–1.5	NM	P-D	3,036	11	0.4
Medians	**10.5**	**16.4**	**12.0**	**39.9**	**9.1**	**4.8**	**–8.8**	**40.6**	**2,726**	**125**	**5.1**
Lease & finance											
Sallie Mae	38.0	36.3	5.9	96.4	26.0	–3.0	25.5	19.8	3,428	332	9.7
Federal Natl Mortgage	30.9	31.3	7.0	94.6	4.2	5.5	67.9*	23.0	13,195	1,396	10.6
Federal Home Loan Mtg	29.6	22.0	9.0	81.7	19.3	8.1	15.1*	0.8	4,220	471	11.2
H&R Block	26.5	25.8	25.8	0.0	15.1	15.6	16.8	14.4	1,227	140	11.4
MBNA	24.3*	31.8	32.2	0.0	18.8*	NA	17.8*	NA	1,086	143	13.2
Household Intl	20.0	19.8	8.2	79.9	6.5	10.0	9.8	4.6	4,568	257	5.6
GATX	18.1	15.6	6.3	65.5	6.4	17.6	31.8*	19.1	969	86	8.9
American Express	16.2	12.7	8.1	58.3	14.2	4.5	–9.0	172.3	25,439	846	3.3
Primerica	13.8	15.2	10.5	57.0	46.9	6.0	46.9*	22.3	6,450	446	6.9
Beneficial Corp	13.3	15.0	8.6	80.2	NM	7.7	NM	3.6	1,831	143	7.8
Rouse	8.9	def	4.0	96.5	15.8	11.1	NM	D-D	572	–10	def
Ryder System	6.8	0.7	4.0	48.7	11.6	–1.1	–27.3	–87.6	5,070	20	0.4
New Valley	def	NE	def	NE	–16.3	–54.4	NM	D-P	268	–21	def
Medians	**18.1**	**15.6**	**8.1**	**65.5**	**14.2**	**6.8**	**15.1**	**16.8**	**3,428**	**143**	**7.8**
Industry medians	**11.1**	**12.0**	**8.7**	**27.2**	**11.3**	**0.1**	**NM**	**0.8**	**1,656**	**88**	**5.6**
All-industry medians	**13.2**	**9.9**	**7.6**	**32.4**	**11.3**	**3.7**	**4.5**	**–5.9**	**1,436**	**40**	**2.9**

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Who said this industry is recession-proof? Low food inflation, slow sales and a trend toward buying less expensive generic brands tell a different tale.

By Toddi Gutner

Food distributors, supermarkets and restaurants usually benefit from a moderate rate of inflation because they can easily pass price increases on to their customers and improve margins. But despite food price inflation of barely 3% last year (as against 6.5% in 1990), the profitability of many of the supermarkets and wholesalers listed in the table fell sharply. Among the reasons: Faced with higher prices for branded packaged goods, millions of consumers are voting with their feet and buying less expensive generics and store brands.

Hit the hardest in 1991 were the food wholesalers. Purchasing practices like forward buying—where wholesalers purchase a future supply of goods to lock in favorable prices—backfired when prices went down instead of up. Super Food Services, for example, was hurt by this type of strategy.

But wholesalers face a more fundamental threat: Big supermarkets are dropping their independent distributors and replacing them with in-house distribution networks. Fleming Cos., the nation's largest wholesaler, lost $700 million in revenues in the last two years when it was dropped by regional chains like Raley's and Albertson's. And Wetterau was the supplier for Alexander's Shop & Save, a chain of nine supermarkets in New Hampshire and Massachusetts, until Alexander's was purchased by Hannaford Bros.

Super Valu Stores, a Minneapolis-based wholesaler, is an exception. Excluding gains from a spinoff, its profits have held steady while other wholesalers' earnings have declined over the latest 12 months. Super Valu specializes

Food distributors	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Supermarkets & convenience											
Food Lion	32.3	30.0	22.6	30.5	24.8	16.5	29.5	21.6	6,205	198	3.2
Arden Group	32.3	8.8	8.6	34.1	–4.4	–4.8	33.6	–56.1	320	5	1.7
Giant Food	24.9	20.3	14.9	27.0	8.5	1.7	20.5	0.5	3,381	113	3.3
Albertson's	23.9	23.1	20.7	12.1	10.6	6.8	23.1	13.9	8,595	251	2.9
Hannaford Bros	20.2	16.0	10.2	39.9	16.9	16.7	20.5	–1.0	1,936	41	2.1
Bruno's	20.0	17.8	12.4	28.5	22.2	8.0	17.9	2.6	2,647	64	2.4
Riser Foods	19.8†	26.6	13.2	60.3	NA	–3.7	NA	48.1	1,011	10	1.0
Winn-Dixie Stores	19.2	20.8	19.5	10.0	3.9	2.7	10.2	16.4	10,124	173	1.7
Smith's Food & Drug	17.7	15.3	9.6	39.4	24.2	9.1	19.6	25.6	2,156	42	2.0
Weis Markets	17.0	13.6	13.4	0.0	4.4	1.7	8.8	–2.1	1,289	83	6.5
Marsh Supermarkets	16.1	15.2	8.8	53.4	7.4	6.0	16.2	3.2	1,075	13	1.2
Schultz Sav-O Stores	16.0	9.6	7.9	32.4	4.6	0.1	11.1	–7.1	481	3	0.7
Delchamps	14.2	12.0	10.1	17.8	6.7	–2.7	17.4	–3.1	940	13	1.4
Great A&P Tea	14.1	9.4	7.3	30.4	11.6	4.5	23.4	–25.0	11,627	114	1.0
Ruddick	13.9	13.7	10.8	21.2	11.7	3.9	13.2	4.2	1,478	27	1.8
Casey's General Store	12.9	12.6	8.9	38.5	13.7	17.1	4.2	26.0	543	10	1.9
American Stores	12.4	19.8	10.0	62.5	11.9	–5.6	NM	75.7	21,315	267	1.3
Ingles Markets	12.4	9.1	6.5	50.9	14.2	4.5	4.8	0.0	1,045	12	1.2
Seaway Food Town	11.8	3.6	4.6	57.6	6.4	4.6	NM	–57.8	571	1	0.2
Village Super Market	9.1	3.8	5.1	41.3	9.8	0.7	–12.5	–54.3	586	2	0.3
Eagle Food Centers	9.1†	def	4.7	59.6	1.3	–1.8	NM	P-D	1,125	–1	def
Dairy Mart	8.6	10.7	8.1	63.3	15.0	6.5	NM	48.3	576	4	0.7
Foodarama Supermkts	7.1	def	4.8	64.8	8.1	6.7	–12.9	P-D	595	0	def
Vons Cos	6.9†	22.7	11.9	60.1	16.6	1.1	NM	77.8	5,373	64	1.2
Kroger	3.0	NE	25.4	235.7	3.6	5.0	–14.2	476.0	21,207	127	0.6

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Norman Brinker scores again

Now 60, Norman Brinker was the man behind Jack-in-the-Box, Steak & Ale and the Pillsbury Restaurant Group during their golden years. After 30 years in the restaurant industry Brinker still appears to have the magic touch. Next to McDonald's, Brinker International has the highest five-year average return on equity—18.7%—of the restaurant chains measured in this survey.

Brinker International (formerly known as Chili's) made the Forbes 200 Best Small Companies list from 1987 through 1990, but it didn't appear in 1991 (Forbes, *Nov. 11, 1991*). But that's only because Brinker—which had latest 12-month revenues of $449 million—had outgrown our definition of a small company.

When Norman Brinker invested in Chili's Grill & Bar in the early 1980s and became its chairman, Chili's was just another hamburger joint. In 1984 the company had 23 restaurants and grossed around $40 million. Today it has 271 restaurants (202 are company-owned) and has stores opening in Mexico and Canada.

All business people talk about focusing on the customer, but Brinker really does it. A Dallas-based management team is always on the road, questioning customers in Brinker outlets and in competitors' shops. Often Brinker participates in this research.

Red Horn

Norman Brinker
The magic touch.

The research often pays off in unexpected ways. Brinker recalls once hearing an older couple say how much they loved Chili's and that they always went to Chili's when their college-age children were home from school. Brinker says the couple meant it as a compliment. "But I took it as a death knell because they were saying that they didn't go to this restaurant on their own," says Brinker. To correct the perception that Chili's restaurants were just for young people, Brinker expanded beyond hamburgers and offered new entrées such as chicken fajitas, ribs and steak.

At heart, Brinker is an innovative merchant who responds quickly to changing consumer tastes. At Chili's, 70% of sales now comes from such items as chicken sandwiches, tuna steak sandwiches and a collection of salads—dishes that weren't even on the menu in 1984. Brinker has also expanded beyond the Chili's concept and now runs a small number of Romano's Macaroni Grill restaurants (Italian food) and Grady's American Grill restaurants (steak and seafood).

Brinker has made good use of computers, too. The company has computerized its labor-and meal-scheduling plans. Food overbuying is minimized by a centralized purchasing program in which a majority of items are ordered from headquarters. There are also exhaustive kitchen staff training programs that teach employees how to minimize waste.

Brinker International was well prepared for the trend away from fast food and the movement toward moderately priced, full-service restaurants. Health-conscious consumers, usually age 35 to 55, are attracted to the varied menus and relaxed atmosphere at Brinkers. "These restaurants are priced only slightly above fast food outlets and yet the customers feel they are getting a lot more for their money," says Steve Rockwell, a restaurant analyst at Alex. Brown & Sons. "They deliver what they promise." –T.G.

in serving growing independent chains—outfits that are generally too small to start their own distribution system. The company also owns 102 supermarkets and 46% of Shopko, a 109-store general merchandise chain. (The rest of Shopko was spun off to Super Valu shareholders last October.)

Despite new cost-cutting technologies, such as time and attendance systems for employee scheduling, as well as scanners and electronic price displays, supermarkets aren't doing much better than wholesalers. Price competition has nipped at the margins of large regional chains such as Vons and Ralphs in southern California and Kroger in Dallas. Smith's Food & Drug and Food Lion—both of which have been successful with an everyday low price strategy—are moving into the southern California and Dallas markets.

Big winners from the slowdown in food price inflation last year were several restaurant chains. Shoney's, Brinker International, Morrison and Bob Evans Farms—all of which offer moderately priced casual and family dining—increased their earnings last year.

But fast-food outlets and cafeterias struggled to keep their customer base. "People are becoming increasingly value- and health-conscious and are continually looking for a good deal," observes Steve Rockwell, an Alex. Brown & Sons restaurant analyst. That trend is forcing Wendy's International, Taco Bell and McDonald's to revise their menus and cut prices—painful for their bottom lines. ■

Food distributors	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Natl Convenience	def	def	def	61.7	4.4	–1.9	NM	D-D	1,049	–15	def
Circle K	def	NE	def	219.2	13.1	–3.2	NM	D-D	3,426	–297	def
Penn Traffic	def†	NE	80.7	93.3	48.7	–6.1	NM	D-D	2,720	–11	def
Safeway	NE	NE	12.0	82.5	–7.5	2.3	NM	225.0	15,094	143	1.0
Medians	**13.9**	**12.0**	**10.0**	**41.3**	**10.2**	**2.7**	**6.8**	**0.5**	**1,478**	**13**	**1.2**
Food wholesalers											
Wetterau	19.4	20.0	10.6	61.1	10.7	4.5	10.0	8.0	5,717	52	0.9
Sysco	19.4	18.7	12.6	33.7	23.4	7.3	22.3	13.2	8,301	158	1.9
Super Valu Stores	18.6	16.4	12.5	35.7	7.8	3.7	12.9	6.5	11,838	161	1.4
Super Food Services	14.3	10.0	8.3	37.8	5.2	2.8	5.4	–29.4	1,826	12	0.7
Fleming Cos	11.7	13.0	9.3	45.6	12.6	7.3	3.8	14.9	12,753	111	0.9
Nash Finch	11.6	10.7	9.5	33.3	12.2	–0.4	3.7	1.9	2,337	18	0.8
Rykoff-Sexton	8.9	7.4	6.6	39.7	7.8	2.8	NM	25.8	1,465	14	0.9
Finevest Foods	def*	NE	def	375.5	24.4*	–28.2	NM	D-D	511	–132	def
Richfood Holding	NA	20.8	17.0	35.0	3.1	0.8	NA	98.1	1,022	11	1.1
Medians	**13.0**	**13.0**	**9.5**	**37.8**	**10.7**	**2.8**	**4.6**	**8.0**	**2,337**	**18**	**0.9**
Restaurant chains											
McDonald's	21.9	19.2	11.5	41.8	12.8	3.5	15.2	7.4	6,668	845	12.7
Brinker Intl	18.7	15.6	15.2	2.2	27.4	23.0	29.8	27.0	449	28	6.3
Morrison	16.0	15.6	12.4	15.1	13.7	7.2	18.2	32.5	984	27	2.8
Bob Evans Farms	15.7	15.1	14.6	0.6	13.0	8.7	9.2	27.1	510	35	6.8
Sizzler Intl	14.4	8.2	7.1	6.8	16.4	12.2	25.9	–21.0	515	21	4.1
Carl Karcher	14.2	11.4	10.0	56.2	12.2	2.7	NM	56.3	535	9	1.7
Shoney's	6.7	NE	27.0	188.6	11.3	6.4	–11.2	25.0	973	35	3.6
Wendy's Intl	6.0	10.6	9.5	32.0	–1.7	2.8	95.9†	28.9	1,032	49	4.7
TW Holdings	NA	def	4.1	84.2	21.4	–1.0	NA	NA	3,631	–69	def
Medians	**15.1**	**11.4**	**11.5**	**32.0**	**13.0**	**6.4**	**16.7**	**27.0**	**973**	**28**	**4.1**
Industry medians	**14.2**	**12.0**	**10.0**	**39.7**	**11.6**	**3.5**	**9.0**	**7.0**	**1,465**	**27**	**1.2**
All-industry medians	**13.2**	**9.9**	**7.6**	**32.4**	**11.3**	**3.7**	**4.5**	**–5.9**	**1,436**	**40**	**2.9**

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

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Profits keep rolling in for these companies. But now even food processors are taking heat from the regulators.

By Edward Giltenan

Cigarettes and alcoholic beverages are perennials on the regulators' hit list. Now packaged-food makers are taking their lumps. Last year a newly vigilant Food & Drug Administration cracked down on brand-name manufacturers for misleading labeling. For example, Procter & Gamble had to remove the word "fresh" from its Citrus Hill Fresh Choice orange juice after the FDA found it was made from concentrate.

But the trouble hasn't slowed down the inexorable forward march of the food processors on our list. They reported latest 12-month return on equity of 17%, nearly double the all-industry median in this survey. Even in a recession, people have to eat. The big question: How much will the slow erosion of brand loyalty eat into the margins of the big players? No one knows for sure. But any drop in domestic margins should be partly offset by the growing demand for American brand names abroad, particularly in Western Europe and Asia.

With the ascension of Michael Miles to the chairmanship of Philip Morris, can there be any doubt that the U.S. tobacco industry has reached full maturity? Miles, formerly head of the company's Kraft General Foods unit, is the first top gun in Philip Morris' 144-year history not to have risen out of the tobacco ranks. Its food businesses now make up half of Philip Morris' $50 billion in sales.

Smoking has been on the decline for years, but cigarettes are so cheap to make that the margins are unbeatable. Philip Morris still gets around two-thirds of its profits

Food, drink & tobacco	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Food processors											
General Mills	52.3	42.6	23.7	27.6	8.8	9.6	24.2	21.7	7,330	485	6.6
Ralston Purina	38.1	36.9	17.2	53.7	6.3	3.9	2.5	3.4	7,376	392	5.3
Smithfield Foods	35.2	35.4	26.9	23.5	NM	10.5	21.5	98.5	1,071	30	2.8
Kellogg	34.9	31.3	23.5	1.3	12.0	16.3	12.4	32.4	5,705	596	10.5
Wm Wrigley Jr	31.4	31.2	30.6	0.0	12.4	4.4	25.1	11.5	1,132	126	11.1
CPC International	27.7	22.2	15.3	27.5	5.5	10.9	24.4	0.2	6,165	364	5.9
HJ Heinz	27.2	30.7	22.3	9.1	9.0	6.4	14.5	29.3	6,588	679	10.3
Tyson Foods	26.2	21.6	10.4	44.7	23.4	2.5	21.1	16.0	3,922	145	3.7
Michael Foods	25.6	17.7	10.5	31.7	29.7	7.3	29.5	9.0	452	21	4.6
Quaker Oats	24.8†	24.1	14.1	22.5	12.0	7.4	11.5	19.6	5,521	245	4.4
Gerber Products	24.2	28.7	22.1	24.0	5.1	1.3	33.3	15.6	1,186	119	10.0
McCormick & Co	24.1	20.3	14.4	33.5	8.7	8.7	34.6	21.7	1,397	76	5.5
ConAgra	23.4	17.8	15.1	48.3	24.9	27.3	16.0	8.9	20,343	322	1.6
Savannah Foods	23.1	20.2	15.2	22.7	15.2	2.4	31.3	-13.6	1,222	42	3.4
Thorn Apple Valley	22.4	59.1	38.8	25.6	5.3	12.2	NM	500.0+	811	21	2.6
Universal Foods	21.3	22.3	17.6	32.6	6.7	-0.5	28.5	11.8	834	58	6.9
Lance	21.3	17.1	15.4	0.0	5.0	0.9	8.3	-14.8	447	40	8.9
Sara Lee	20.7	24.3	15.1	20.5	9.1	4.2	16.8	44.2	12,421	692	5.6
Dean Foods	20.5	18.9	14.6	24.6	11.2	4.5	13.2	13.8	2,171	74	3.4
Hershey Foods	20.0	15.3	12.2	17.4	5.1	6.3	14.4	-14.9	2,798	191	6.8
JM Smucker	19.4	17.2	16.4	2.0	12.3	7.1	16.2	5.8	464	32	6.9
Unilever NV	19.0	15.0	11.1	18.5	11.4	7.8	19.4	3.2	42,180	1,822	4.3
Imperial Holly	17.0	15.7	11.7	31.9	30.7	-2.2	NM	6.2	710	21	3.0
Chiquita Brands Intl	16.6	15.9	12.5	44.4	6.3	7.0	22.8	17.5	4,523	122	2.7
Geo A Hormel	16.4	16.9	15.5	4.2	6.8	5.8	17.7	11.9	2,836	86	3.1
Pilgrim's Pride	15.3	12.0	7.5	51.2	17.3	9.2	NM	-21.7	787	12	1.6
Flowers Industries	15.3	11.1	8.6	31.8	3.0	-0.3	NM	-28.1	828	23	2.8
Lancaster Colony	14.8	16.3	12.8	26.5	4.1	-0.5	34.2	50.0	504	23	4.6
Dole	14.8	13.3	7.9	30.8	13.8	5.3	31.1	-0.5	3,190	124	3.9
WLR Foods	14.8	7.2	6.5	13.2	7.7	-1.4	NM	-49.2	493	8	1.7

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Dwayne Andreas
of Archer Daniels
Midland
In the midst of the recession, he has spent $1.4 billion to keep ADM one step ahead of the competition.

Not a kernel of waste

DWAYNE ANDREAS would like nothing better than to run Archer Daniels Midland as tightly as the Moscow restaurant that sells its VegeBurgers. "They're selling 5,400 patties a day in one store," says Andreas, longtime chief executive of the Decatur, Ill. firm. "It's all they can make."

For its size, ADM is every bit as efficient as that restaurant. The credit goes to Andreas, 73, and his almost maniacal obsession with being the nation's largest and lowest-cost grain processor. That singular drive, along with his impressive political contacts, have helped Andreas build ADM into a powerhouse with $8.7 billion in sales and $485 million in profits.

Consider the mileage ADM gets out of one commodity, corn, which accounts for half of the company's earnings. ADM derives about 30 different products from corn—everything from animal feed to an important component of denim fabric. In the 1970s Andreas was an early believer in high-fructose corn syrup. Derived from cornstarch, HFCS has largely replaced sugar as a soft-drink sweetener. ADM controls 31% of the HFCS domestic market. Andreas was also an early and outspoken supporter of ethanol, the fuel additive that purportedly reduces air pollution. ADM has 65% of the ethanol market.

That kind of focus makes for incredibly efficient production. In spring and summer, when soft-drink demand takes off, ADM's three domestic fructose plants churn day and night. In fall and winter, when competitors' fructose plants slow down, ADM's facilities stay busy pushing out ethanol.

On the Mississippi River, ADM operates a fleet of 2,200 barges for itself and customers. The huge fleet can pick up grain from elevators every three days, much more frequently than the competition. That cuts down on storage costs. "When I look at our company, I see one machine running 24 hours a day, Sundays and holidays," says Andreas. "That's 128 plants and 200 storage facilities, all geared together and running in one continuous hum." Result? ADM's return on capital averaged 9.1% between 1984 and 1990, compared with 6.8% for privately held Cargill, its biggest competitor.

How does Andreas do it? By not being afraid to spend money to keep ahead of rivals. Andreas stepped up his spending in the recession: In the last two years he spent $1.4 billion to modernize plants. Much of that has gone to make amino acids, such as lysine, for improved poultry and hog feed.

ADM's balance sheet is clean: Debt is just 17% of total capitalization. To the chagrin of some shareholders, Andreas prefers to shovel profits back into the company, paying a paltry cash dividend of 10 cents a share. "The key to our success," says Andreas, "is to have enough plans to invest our money the day we make it." –E.G.

from tobacco. Brand loyalty remains so powerful that the two top players, Philip Morris and RJR Nabisco, raised prices not twice, as is customary, but three times last year. On the other hand, discount brands, selling for as little as $1 a pack, continue to gain market share. They now account for a quarter of overall volume, according to John Maxwell of Wheat First Securities. Look for the big players to concentrate on foreign markets and to continue expanding their nontobacco businesses.

Despite the usual flat-to-declining volume, beer and soft-drink stocks had another good year. Philip Morris (with its Miller Brewing Co.), Anheuser-Busch Cos. and PepsiCo posted latest 12-month return on equity of more than 20%. Coca-Cola notched an astounding 41% return. Excise taxes on beer doubled, driving volume down 2% on the year.

Again, healthy foreign demand should soften the sluggishness prevailing at home. Number three brewer Adolph Coors plans to build a brewery in South Korea. And PepsiCo plans to attack Coke's dominance in Mexico, possibly by buying the country's largest Pepsi bottler, Grupo Escorpion. ■

Food, drink & tobacco	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Archer Daniels	14.6	12.9	10.5	17.8	10.0	8.9	16.2	2.6	8,690	485	5.6
Pioneer Hi-Bred Intl	14.2	16.4	15.1	8.5	4.7	16.6	10.3	47.6	1,125	104	9.3
Borden	13.8	19.2	13.1	41.4	11.4	–5.3	14.6	–1.6	7,284	354	4.9
Seaboard	13.6	8.5	6.8	22.1	10.3	42.5	16.4	–27.7	753	19	2.5
Hudson Foods	11.9	6.5	4.9	35.4	24.2	14.8	NM	–3.3	765	8	1.1
Campbell Soup	11.2	24.7	17.3	27.1	8.5	–1.9	NM	500.0+	6,157	426	6.9
Intl Multifoods	10.8	11.7	9.0	26.6	11.1	2.9	NM	43.8	2,214	38	1.7
Curtice Burns Foods	10.3	2.7	5.0	65.8	10.3	–1.2	–13.2	–52.4	926	3	0.3
IBP	9.5†	0.2	2.6	48.6	9.8	6.1	NM	–98.1	10,445	1	0.0
American Maize	4.7	4.6	7.1	33.1	2.3	4.9	NM	179.5	520	7	1.3
ERLY Industries	def	def	def	87.7	25.2	–15.6	NM	P-D	347	–7	def
Interstate Bakeries	NA	NE	8.9	53.2	10.9*	1.1	NA	D-D	1,112	–6	def
Pet	NA	9.4	7.4	55.9	17.4*	–2.1	NA	NA	1,871	44	2.4
Medians	19.4	17.1	13.1	27.1	10.0	5.3	14.6	8.9	1,397	74	3.9
Beverages											
Coca-Cola	41.9	41.2	34.1	18.9	10.9	13.3	19.6	–13.5	11,249	1,554	13.8
PepsiCo	28.2	21.7	12.4	51.2	17.3	11.5	18.4	6.9	19,123	1,075	5.6
Anheuser-Busch Cos	23.8	21.8	12.8	30.4	8.5	6.2	16.1	10.3	11,013	922	8.4
Brown-Forman	22.3	22.4	17.5	13.0	0.9	13.9	11.8	8.0	1,191	146	12.2
Seagram	13.8	11.7	10.0	25.5	20.5	9.3	18.2	0.1	5,106	701	13.7
Coca-Cola Enterprises	5.8*	3.0	4.1	54.9	25.6	0.7	NM	–40.0	4,038	54	1.3
Adolph Coors	3.5	2.7	2.4	7.9	8.6	–1.2	–16.8	–20.4	1,886	29	1.6
Coca-Cola Bottling	def	def	3.6	59.6	3.1	7.1	NM	D-D	452	1	0.1
Whitman	NA	21.2	8.4	58.8	11.6	4.8	NM	D-P	2,361	82	3.5
Medians	18.1	21.2	10.0	30.4	10.9	7.1	11.8	0.1	4,038	146	5.6
Tobacco											
UST Inc	39.7	50.6	48.1	0.0	9.4	17.9	19.8	21.0	859	254	29.6
Philip Morris Cos	35.2	34.3	16.2	49.6	27.5	18.4	24.5	16.3	50,139	4,106	8.2
American Brands	21.2	16.0	11.2	35.4	12.1	13.1	14.8	–25.4	8,639	597	6.9
Hanson	20.7	13.6	10.0	37.0	26.8	14.2	27.8	–3.8	13,839	1,786	12.9
Dibrell Brothers	20.4	26.1	12.4	64.7	26.8	33.4	14.9†	87.8	1,061	23	2.2
Culbro	6.0	def	3.1	49.2	NM	11.8	–36.6	P-D	990	–1	def
Std Commercial	4.1	12.8	11.2	16.0	14.9	14.1	–17.3	193.5	1,125	15	1.3
Brooke Group	def*	NE	def	201.8	45.1*	34.8	NM	P-D	1,061	–91	def
RJR Nabisco	NA	7.2	8.7	58.2	4.7*	7.1	NA	NA	14,700	269	1.8
Universal	NA	27.8	17.2	35.0	13.2*	19.6	17.7*	33.0	2,948	67	2.3
Medians	20.6	14.8	11.2	43.1	14.1	16.1	14.9	16.3	2,037	161	2.2
Industry medians	20.0	17.0	12.4	30.6	10.6	7.0	14.8	7.4	2,029	79	3.8
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

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The companies that make packaging materials, paper and lumber just finished a dismal year. This one may not be much better.

By Linda Killian

Construction and publishing—this industry's largest customers—are two of the biggest recession victims. So it's not surprising that forest products and paper companies are in trouble. Earnings peaked in the second quarter of 1989 and have been sliding ever since. Latest 12-month profits were down approximately 60% compared with 1990. A mild recovery, at best, is expected for the paper business in 1992; lumber may make a stronger comeback.

A big increase in capacity over the last three years and a decrease in demand drove down the price of some types of wood pulp 40%, to $480 a ton by year-end. Except in recycling, capacity growth will be slow in the next few years.

One bright spot was bleached board, used for consumer packaging. Last summer manufacturers were able to pass along a 5% price increase. Uncoated printing papers and

Turning paper into money

LIKE EVERY other paper company's, Union Camp Corp.'s earnings were down last year. But thanks to its strong position in linerboard and its efficient operations, the Wayne, N.J.-based company should have a pretty good year in 1992.

Chalk that up to conservative management. In the 1980s, when many competitors were loading up with debt or making aggressive acquisitions, "We were putting our money back into our business," says Chairman and Chief Executive Raymond E. Cartledge.

Capital investments of $2.3 billion in the last four years have increased Union Camp's production capacity by 26%. At its Alabama linerboard mill, the company reduced its man-hours per ton of paper produced by 22%. Similar savings are expected at two other mills that it recently modernized. Cartledge, 62, claims $2.8 billion (sales) Union Camp is now the most cost-effective producer in the world in its two main products—linerboard and uncoated business papers.

Fully 35% of Union Camp's sales come from linerboard and corrugated containers, enough to give it more than a 7% share in the linerboard market and make it the fourth-largest U.S. producer. It's also a major exporter of linerboard, shipping 260,000 tons a year to overseas markets. Foreign demand for linerboard is expected to grow twice as fast as domestic demand.

Like all U.S. paper companies, Union Camp is under pressure to meet tougher environmental regulations. But Cartledge uses the forced plant upgrades as an opportunity to make things more efficient. Union Camp recently developed a process to bleach pulp using ozone instead of chlorine. The process reduces effluent and uses less water and chemicals, and it reduces bleaching costs at least 30%.

By increasing the amount of recycled fibers used in its linerboard, Union Camp expects to save $16 million annually in capital costs at one mill alone. When its Savannah, Ga. pulping plant was throwing off a strong sulfur odor, "rather than put a Band-Aid on the problem, we enlarged and modernized the plant, and decreased our costs by 12%," says Cartledge.

With a strong balance sheet, Union Camp may be ready for acquisitions. It bought Chase Bag (sales, $150 million) in 1990, but Cartledge wants to buy other companies. "I'm ready and able to compete and win anywhere in the world," he says. –L.K.

Union Camp's Raymond Cartledge
Running fast, efficient mills.

linerboard also did well. Linerboard exports were up 15% over 1990; this should be the strongest-performing paper sector in 1992. Companies like Union Camp, Stone Container and Temple-Inland will benefit.

Wood and forest products had a dismal year, but they could stage a recovery in 1992 if the supply of timber is sharply reduced. That could happen if federal timber sales are cut back in the Pacific Northwest and there's an end to below-cost timber sales by the U.S. Forest Service. Neither of these moves is certain. But if they happen and there's any kind of rebound in housing starts this year, there could actually be some lumber shortages by 1993.

Boise Cascade and many smaller private companies heavily reliant on government-owned wood could suffer if supplies tighten and prices rise. But Georgia-Pacific, Weyerhaeuser and Louisiana-Pacific—all of which have their own wood supplies—could triple their earnings by 1993. In early December 1,000 board feet of lumber was selling for $235. That could approach $300 by spring and go much higher by 1993 if demand picks up at the same time the supply is reduced.

The packaging industry, less sensitive to economic swings, hasn't fared too badly in the recession. Demand for consumer packaging was up slightly last year; can and plastic-bottle makers benefited from a decline in the cost of their raw materials: aluminum, steel and resin. Crown Cork & Seal's $800 million in acquisitions, including Continental Can's U.S. and Canadian operations, doubled its size. The Philadelphia-based company, which last paid a dividend in 1956, now has 25% of the U.S. beverage can market and should post close to a 20% earnings gain in 1991 and in 1992. ■

Forest products & packaging

Company	Profitability: Return on equity, 5-year average %	Return on equity, latest 12 mos %	Return on capital, latest 12 mos %	Debt/capital %	Growth: Sales, 5-year average %	Sales, latest 12 mos %	Earnings per share, 5-year average %	Earnings per share, latest 12 mos %	Sales latest 12 mos $mil	Net income latest 12 mos $mil	Profit margin latest 12 mos %
Paper & lumber											
PH Glatfelter	25.1	19.5	16.6	0.0	20.7	–4.1	23.5	0.6	585	81	13.9
Federal Paper Board	24.1	11.7	5.8	48.4	11.6	8.3	63.0	–37.9	1,461	100	6.8
Willamette Inds	21.0	4.3	3.8	34.3	12.3	0.0	21.9	–74.7	1,921	43	2.2
Consolidated Papers	20.4	10.9	9.4	11.0	8.1	–5.8	11.6	–35.9	902	100	11.1
Pope & Talbot	19.5	0.3	1.0	21.6	15.4	–11.3	28.7	–98.2	516	0	0.1
Georgia-Pacific	18.7	2.1	3.5	52.2	13.1	–2.1	26.7	–86.4	11,789	61	0.5
Albany International	18.6	2.9	2.6	46.2	13.4	5.6	NM	–63.2	567	7	1.3
Union Camp	16.4	8.0	4.3	34.7	9.4	4.9	25.1	–34.5	2,937	157	5.4
Potlatch	15.7	4.9	4.3	32.3	6.4	–4.2	25.3	–67.0	1,224	44	3.6
Bowater	14.5	6.1	4.3	24.8	10.9	–5.7	10.6	–39.6	1,316	62	4.7
International Paper	14.3	6.5	4.7	29.4	24.5	0.6	38.7	–51.2	12,748	368	2.9
Chesapeake	12.9	3.6	3.5	49.9	12.3	–1.5	13.2	–55.3	836	11	1.4
Westvaco	12.8	8.5	5.9	31.0	5.8	–4.5	6.0	–27.6	2,301	137	6.0
Mead	12.6	def	0.3	42.1	11.8	–2.0	NM	P-D	4,620	–36	def
Louisiana-Pacific	12.3	3.4	3.1	24.1	11.9	–14.0	29.9	–69.6	1,663	43	2.6
Boise Cascade	11.6	def	0.6	46.8	3.1	–5.5	NM	P-D	4,002	–59	def
Weyerhaeuser	11.0	6.0	4.2	50.0	8.2	–8.9	14.1	26.1	8,659	231	2.7
Champion Intl	10.9	0.8	2.4	38.6	NM	–5.5	11.9	–89.2	4,823	57	1.2
Medians	**15.1**	**4.6**	**4.0**	**34.5**	**11.7**	**–4.2**	**18.0**	**–59.2**	**1,792**	**59**	**2.6**
Packaging											
Stone Container	23.5	def	4.7	69.0	36.0	–5.0	26.0	P-D	5,471	–3	def
Longview Fibre	22.0	6.0	4.5	42.8	9.6	–4.4	24.3	–59.4	654	24	3.6
Sonoco Products	18.1	18.9	13.1	26.8	15.6	2.2	7.4	104.5	1,680	97	5.8
Temple-Inland	18.1	11.2	7.9	32.4	14.9	7.3	29.5	–28.2	2,485	163	6.6
Bemis	17.7	16.9	11.4	27.2	7.7	5.5	20.9	1.0	1,154	50	4.4
Crown Cork & Seal	14.3	13.0	10.0	30.5	12.7	41.1	11.9	16.0	3,779	124	3.3
Constar Intl	14.0	10.5	8.5	20.6	2.5	5.3	0.8	0.5	533	15	2.8
Ball Corp	10.9	11.1	8.5	31.0	4.2	49.2	–8.0	10.0	2,032	59	2.9
St Joe Paper	9.7	2.9	3.3	3.6	5.7	–6.1	NM	–45.0	575	23	4.1
Sealed Air	8.1	NE	29.3	145.8	18.9	5.8	–12.1	45.9	426	15	3.4
Kerr Glass Mfg	def	def	4.1	66.8	4.1	–0.6	NM	D-D	295	–1	def
Gaylord Container	def*	def	def	97.8	11.7*	0.8	NM	D-D	724	–180	def
Medians	**14.2**	**8.3**	**8.2**	**31.7**	**10.7**	**3.7**	**8.1**	**–13.9**	**939**	**24**	**3.4**
Industry medians	**14.4**	**5.5**	**4.3**	**33.3**	**11.6**	**–1.8**	**12.6**	**–48.1**	**1,562**	**47**	**2.9**
All-industry medians	**13.2**	**9.9**	**7.6**	**32.4**	**11.3**	**3.7**	**4.5**	**–5.9**	**1,436**	**40**	**2.9**

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

The good news? This group's return on equity is still way above average. The bad news? The politicians have noticed the profits.

By Mary Beth Grover

Health stocks are hot. Through mid-November 1991, drug companies outperformed the S&P 500 by a 2-to-1 margin, health maintenance organization stocks doubled and biotechnology stocks nearly tripled. Investors might be happy, but Washington isn't. Indeed, the 1992 election campaign portends a war against national health care costs, which are now nearly $700 billion and growing rapidly.

"Everyone is bent out of shape over cost containment," says Smith Barney analyst Christina Heuer, who points out that, as of mid-December, this worry has pushed down drug stocks' relative P/Es to the market multiple, from twice that figure 20 years ago. And as trade barriers come down in Europe, drug companies will no longer be

Health	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Drugs											
American Home Prods	60.6	49.7	37.1	3.4	5.2	1.0	NM	10.0	6,873	1,331	19.4
Syntex	51.1	48.6	38.9	21.4	12.2	18.0	17.8	18.5	1,871	431	23.0
Merck	48.9	53.1	43.8	9.4	16.7	14.4	30.4	20.9	8,388	2,034	24.3
Warner-Lambert	40.0	38.7	29.4	14.9	8.7	10.8	15.9*	14.9	4,967	543	10.9
Marion Merrell Dow	38.8	41.2	40.0	6.2	37.2	24.8	18.8	37.9	2,708	568	21.0
Abbott Laboratories	35.3	37.3	31.4	3.9	12.7	13.5	18.2	15.0	6,700	1,054	15.7
Glaxo Holdings	33.6	27.7	25.4	3.7	20.1	9.5	17.6	1.7	5,441	1,362	25.0
Schering-Plough	26.4	30.7	26.0	8.2	11.0	7.6	22.4	19.5	3,550	627	17.7
Bristol-Myers Squibb	26.2*	36.7	34.0	2.6	11.9	10.4	14.5*	106.0	10,958	1,971	18.0
Eli Lilly	26.0	32.5	30.4	8.5	8.2	14.4	16.5	16.3	5,597	1,259	22.5
Upjohn	18.6	25.3	20.5	10.7	8.5	11.9	9.5	144.4	3,311	522	15.8
Pfizer	18.0	16.8	15.7	2.9	9.3	12.6	5.5	18.5	6,885	876	12.7
Bergen Brunswig	15.8	14.0	11.1	29.8	9.6	8.9	21.4	3.3	4,838	64	1.3
Cardinal Distribution	15.8	11.3	8.9	30.6	19.5	38.5	15.6	31.5	1,368	21	1.5
Durr-Fillauer	14.5	15.0	16.0	34.3	13.5	14.9	18.0	14.3	908	19	2.1
Rhone-Poulenc Rorer	13.1	59.2	18.8	62.5	40.5	72.1	10.7	D-P	3,817	365	9.6
McKesson	11.8	11.3	9.8	25.9	5.6	12.2	3.3	5.8	9,163	101	1.1
Imcera Group	9.4	10.0	7.1	21.9	NM	10.1	46.4*	34.5	1,640	96	5.9
Bindley Western Inds	9.2	17.1	12.4	46.1	27.3	21.2	NM	111.3	2,287	10	0.5
National Intergroup	def	1.4	3.9	25.8	NM	11.1	NM	D-P	3,124	12	0.4
Medians	22.3	29.2	23.0	12.8	11.4	12.4	16.2	19.0	4,328	533	14.2
Health care services											
FHP International	39.5	18.2	16.4	9.6	37.8	28.5	33.9	19.4	1,367	37	2.7
PacifiCare Health	26.1	30.4	31.3	0.7	59.8	31.3	33.3	47.4	1,173	24	2.0
US Healthcare	24.7	58.4	60.2	0.0	28.0	27.5	NM	156.6	1,558	141	9.0
National Health Labs	22.0*	38.2	35.2	0.0	24.2	19.2	32.9	25.3	576	98	17.0
Humana	21.5	20.2	15.4	30.5	18.2	20.9	35.5	10.1	5,865	355	6.1
National Medical	18.2	19.6	10.6	32.3	6.9	1.6	30.0	12.8	3,896	289	7.4
United HealthCare	16.5	45.3	45.3	1.7	36.1	38.8	NM	87.5	741	64	8.6
Manor Care	12.5	14.7	8.2	56.6	11.5	15.8	NM	21.6	846	34	4.0
Lifetime	10.4	13.1	12.5	47.2	64.2	25.4	48.1*	13.3	831	20	2.5
Universal Health	5.4	11.1	7.0	38.8	9.5	10.0	–6.9	62.7	676	19	2.8
Beverly Enterprises	def	4.7	5.8	51.0	3.5	6.8	NM	83.3	2,241	25	1.1
Foundation Health	NE	def	48.7	1.5	55.0	8.9	NM	50.3	986	31	3.2
American Medical	NA	def	5.9	81.0	NM	0.5	NA	D-D	2,546	–19	def
Hillhaven	NA	1.2	4.4	70.2	8.3	9.4	NA	NA	1,254	2	0.1
Medians	17.3	16.5	13.9	31.4	21.2	17.5	11.6	25.3	1,214	33	3.0

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

required to run manufacturing facilities in the countries they do business in, thereby eliminating excess capacity. Heuer recommends Glaxo, Merck, Pfizer and Syntex because of promising new products.

As the government and managed health care providers try to stem drug costs, drug companies are responding with their own cost-cutting efforts. Merck, for instance, thinks it can offset price concessions given to large health care organizations by reducing the size of its sales force. The Food & Drug Administration is leaning toward speeding up its approval process. A change here would substantially reduce the 10 to 12 years and more than $230 million in research and development costs typically necessary to get a new drug from the laboratory to the market.

Advances in laparoscopy—in which doctors make small incisions and use miniature instruments and cameras to do gall bladder surgery, hernia surgery and sometimes even appendectomies, hysterectomies and other operations—were the big news in 1991. By 1995 laparoscopy should be a $2 billion market, figures Cowen & Co.'s Daniel Lemaitre. U.S. Surgical leads this field, and Johnson & Johnson is getting started in it.

It's hard to find much in the way of earnings in the biotechnology stocks. One exception is Amgen, which wasn't profitable when it went public in 1983. But worldwide sales of its Epogen red blood cell stimulator are expected to exceed $800 million in 1991. Of that, Amgen will get $400 million, plus royalties. In the first ten months of 1991, investors in search of the next Amgen poured years, exceeding the compound growth rate for sales over the same period. That kind of investing has cut into Abbott's earnings-per-share growth: While profits grew at a record 20% rate in 1988, they will probably increase only 15% a year for the next several years.

But Chief Executive Duane Burnham, 49, sees nothing wrong with that kind of progress. Neither would many other chief executives of corporations as large as Abbott Laboratories.

–M.B.G.

Diversity and synergy

ANY WAY you look at it, Abbott Laboratories stacks up well against the competition. North Chicago-based Abbott spends just 21% of its estimated $7 billion 1991 sales on selling, general and administration costs. Competitor Johnson & Johnson spends nearly twice that amount. Cowen & Co.'s analyst Daniel Lemaitre estimates Abbott's pretax margin at 22%—about twice those of Baxter International, C.R. Bard and Becton Dickinson.

What's Abbott's secret? Diversity, for one thing. Abbott has a big or leading market share in infant formula, in-vitro diagnostics, medical nutritional products, intravenous fluids and anti-infective pharmaceuticals. So when it comes to marketing and distributing, Abbott is able to realize enormous efficiencies.

For example, a few years ago Abbott's $1.5 billion (1990 revenues) diagnostics division came out with TestPack, an easy-to-use testing product that allows doctors to test for strep throat and pregnancy right in their offices.

The problem was that the diagnostics sales force, which called on hospitals and clinical laboratories, didn't have the manpower to call on individual doctors. The solution? Have the drug sales force sell the new kits. Abbott is now the world market leader in the $1 billion doctors' office diagnostics market, supplying physicians with test kits.

It is also a world leader in the $10 billion diagnostics market, which includes the $4 billion immunology diagnostics market for screening diseases such as hepatitis, AIDS and cancer.

Abbott continues to invest strongly in its growing pharmaceutical and diagnostics divisions. Ultimately, this should offset declining margins for the infant formula division, which is under pricing pressure from the government and competitors.

As with all drug companies, research at Abbott is a big-ticket item. Last year alone, Abbott spent an estimated $770 million on research. Such expenditures grew at a compound rate of 19% for the last five

Abbott's chairman, Duane Burnham
Balancing growth with investing.

over $1 billion into the 32 largest biotech initial public offerings.

Although some of the new biotech issues will probably bomb, Prudential Securities' Joseph Edelman expects biotechnology to be one of the fastest-growing industries in history. He thinks industrywide revenues could grow to $40 billion by the end of the decade; current revenues are about $4 billion. His advice? Stick with stocks of companies like Centocor, Synergen and Chiron, all of which have some clinical data to back up their claims.

Health	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Medical supplies											
Johnson & Johnson	27.7	28.4	23.2	17.3	11.8	10.9	23.9	27.5	12,093	1,419	11.7
Medtronic	22.5	20.5	20.7	1.0	19.8	19.9	18.5	12.9	1,053	139	13.2
US Surgical	21.5	29.4	22.6	40.8	21.5	66.3	33.8	76.1	755	77	10.2
Hillenbrand Inds	20.3	19.0	14.7	16.0	16.7	5.2	18.1	14.7	1,157	83	7.2
VWR	20.2	19.9	10.9	60.5	12.8	3.2	6.4	14.9	435	7	1.6
CR Bard	19.3	15.3	13.7	16.5	11.6	8.8	4.8	25.3	847	53	6.2
Bausch & Lomb	17.7	17.4	14.8	11.7	18.6	11.0	14.7	15.8	1,478	146	9.9
Becton Dickinson	17.4	14.6	10.3	32.2	9.9	7.9	13.1	4.1	2,172	190	8.7
Corning	16.2	15.4	12.6	23.1	10.8	15.4	19.1	4.2	3,206	298	9.3
American Cyanamid	15.0	13.6	11.7	11.5	6.1	8.7	19.7	6.6	4,984	349	7.0
Beckman Instruments	13.8*	11.6	10.6	13.7	8.7	7.7	NM	2.4	850	38	4.4
Angelica	13.1	12.7	11.0	22.7	8.7	5.8	4.8	3.9	427	22	5.3
Owens & Minor	9.6	12.9	10.2	40.2	27.0	8.8	NM	78.8	1,284	11	0.9
Baxter International	7.5	15.5	12.4	31.8	22.6	10.4	NM	D-P	8,705	585	6.7
Westmark Intl	5.3*	5.5	5.9	4.5	21.0	0.7	NM	–11.0	482	16	3.4
Perkin-Elmer	0.0	def	def	17.0	–10.1	1.1	NM	P-D	868	–16	def
Allergan	NA	def	def	20.5	23.6	7.2	NA	P-D	911	–62	def
Henley Group	NA	def	def	61.2	28.4†	–11.2	NM	D-D	1,689	–557	def
Medians	16.8	14.9	11.4	18.9	14.8	8.3	6.4	9.7	1,105	55	6.5
Industry medians	17.9	16.9	14.2	18.9	12.5	10.8	14.7	18.5	1,780	90	6.5
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9
Biotech											
Diagnostic Products	24.1	20.9	22.3	0.0	27.4	19.7	30.3	14.4	87	19	22.4
ICN Biomedicals	15.9	7.4	5.3	22.8	40.3	–9.0	22.2*	–51.2	109	4	4.1
Life Technologies	14.4	11.0	11.4	0.0	11.9	14.8	NM	–2.0	166	15	8.7
Applied BioScience	13.3	20.4	18.1	2.9	33.8	23.0	37.8	72.9	109	12	10.6
ALZA	11.3	13.1	7.9	38.4	17.8	31.1	28.4	32.8	122	33	27.0
Immucor	10.4	12.5	14.2	0.0	25.4	81.6	52.4	33.5	23	3	14.1
Molecular Biosystems	8.3	3.0	4.2	5.6	65.3	4.7	NM	–8.3	13	1	10.1
Amgen	7.2	8.3	9.8	2.7	79.6	104.4	NM	–46.9	646	40	6.3
Applied Biosystems	6.8	2.0	1.9	7.0	25.1	5.5	NM	D-P	168	3	1.9
Cordis	4.7	14.0	12.6	16.2	4.7	17.0	NM	–9.5	203	11	5.4
IGI	2.5	1.7	3.0	33.1	1.7	9.6	–44.5*	Z-P	22	0	0.5
Collagen	1.2	def	def	19.1	26.2	8.8	NM	P-D	60	–7	def
Gamma Biologicals	def	6.1	6.9	6.6	NM	–6.9	NM	–4.8	16	1	5.5
Biogen	def	3.0	6.0	0.0	32.7	36.6	NM	300.0	60	9	14.7
Synergen	def	def	def	3.9	NM	–54.0	NM	D-D	5	–8	def
California Biotech	def	def	def	0.0	10.6	–35.1	NM	D-D	9	–8	def
Genentech	def	8.2	6.2	13.9	41.7	9.8	NM	D-P	477	61	12.9
Genetics Institute	def	def	def	0.0	22.7	91.3	NM	D-D	68	–21	def
Chiron	def	8.5	7.3	31.0	58.6	78.6	NM	D-P	110	12	10.8
Collaborative Research	def	def	def	0.7	–4.6	0.1	NM	D-D	9	–2	def
Genzyme	def	0.0	1.5	0.6	39.3	111.1	NM	D-Z	91	3	3.6
Cambridge Biotech	def	def	def	12.7	34.1	22.2	NM	D-D	26	–4	def
Synbiotics	def	def	def	0.3	34.0	–28.1	NM	D-D	7	–6	def
Repligen	def	def	def	0.0	20.3	–30.0	NM	D-D	7	–7	def
Calgene	def	def	def	7.9	25.6	–15.0	NM	D-D	26	–28	def
Centocor	def	def	def	41.0	28.8	–24.7	NM	P-D	53	–284	def
Immunex	def	def	def	9.8	62.7	26.8	NM	D-D	40	–10	def
Enzo Biochem	def	def	def	64.9	24.5	2.0	NM	D-D	20	–11	def
XOMA	def*	def	def	1.1	26.4	–1.1	NM	D-D	19	–31	def
Medians	def	1.7	1.9	5.6	26.2	9.6	NM	–51.2	53	1	1.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. Z-P: Zero to profit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95. Note: Medians for the Biotech industry are not included in this Health industry and the all-industry medians. *Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.*

The F-117, the world's first stealth fighter.

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The big failures of last year cast a pall on insurers. Now the industry is struggling to restore its credibility.

By Carolyn T. Geer

Last year was one the insurance industry would just as soon forget. Regulators took over four major life insurers—with the attendant publicity as unprecedented as the size of the failures. The insurance units of First Executive Corp. and First Capital Holdings Corp. went under when the junk bonds that made up much of their portfolios dropped sharply in value. Bad real estate investments toppled Mutual Benefit Life Co. and the parent of Monarch Life Insurance Co. Concerns about the quality of assets plagued the entire industry. Moody's and Standard & Poor's responded with a rash of downgrades.

Some companies dumped their junk bonds near the bottom of a market that has since rallied sharply. Now the insurance industry faces other problems. Commercial mortgage loan portfolios continue to deteriorate. Delinquencies reached an alltime high of 5.6% in 1991 and could hit 7% this year. State regulators are now requiring life insurers to set up special reserves for all their assets, not just securities.

Life insurance stocks recovered somewhat from the pounding they took in 1990. But they're still trading near their 20-year low on a relative P/E basis. Robinson-Humphrey Co. insurance analyst Thomas Rosencrants thinks there are some good values here. He particularly likes companies with above-average quarterly earnings

Insurance	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Diversified											
Loews	22.2	15.0	12.4	21.6	12.3	8.6	12.6	–8.4	12,522	749	6.0
Reliance Group	21.5	def	def	69.9	9.9	–15.9	NM	P-D	3,160	–217	def
American Intl Group	19.6	15.7	12.7	35.1	20.5	10.2	23.7	5.6	16,702	1,535	9.2
Leucadia National	19.1	10.4	11.0	27.8	33.4	23.9	NM	–65.1	835	28	3.3
Safeco	17.9	13.5	12.4	14.1	6.4	6.3	12.8	1.7	3,185	268	8.4
Aon	16.7	15.6	12.0	19.4	12.0	16.4	4.1	–1.6	2,906	236	8.1
Cincinnati Financial	15.2	14.5	14.7	0.0	10.3	10.7	15.2	17.2	1,138	148	13.0
Old Republic Intl	14.9	15.2	13.8	14.9	5.2	8.5	7.5	14.3	1,344	120	8.9
CNA Financial	14.7	9.8	9.9	8.0	15.5	11.6	6.7	22.4	10,745	433	4.0
Transamerica	12.2	6.9	6.6	67.5	6.8	4.4	6.6	–35.2	6,875	208	3.0
Kemper	12.0	12.5	11.8	10.8	8.7	5.4	27.7	NM	3,061	207	6.8
Aetna Life & Cas	11.1	7.8	7.4	11.9	3.7*	–5.6	NM	–6.3	18,543	554	3.0
Uslico	11.0	6.1	6.0	22.8	15.0	–9.9	NM	–32.0	416	19	4.7
Lincoln National	10.2	10.3	9.4	11.9	13.6	6.8	NM	8.7	9,051	252	2.8
Independent Insurance	9.7	8.8	8.3	3.3	5.8	5.6	12.1	5.8	573	30	5.3
Cigna	9.6	8.7	8.4	14.0	6.9	7.2	–13.0*	25.3	18,766	460	2.5
American Bankers	9.4	18.0	13.3	30.5	6.6	4.8	NM	47.0	768	36	4.6
Sears, Roebuck	9.0	7.1	6.1	49.4	6.7	2.2	–4.3	–13.8	56,832	971	1.7
Unitrin	7.5†	7.3	7.3	0.0	2.3*	3.9	NM	26.4	1,247	137	11.0
Travelers	3.1	8.5	8.2	14.6	NM	–1.8	NM	D-P	11,505	377	3.3
Medians	12.1	10.1	9.6	14.8	7.8	5.9	–0.1	5.7	3,173	222	4.7
Life & health											
Conseco	43.1	53.6	19.6	66.0	82.1	68.7	65.6	191.6	1,196	88	7.4
Torchmark	26.6	26.2	17.2	37.8	4.6	9.3	13.5	0.9	1,900	230	12.1
American Family	17.9	17.7	9.3	9.1	22.2	22.9	9.3	27.4	3,137	141	4.5
Capital Holding	17.4	16.6	14.0	25.9	14.0	9.3	6.1	35.7	2,717	243	9.0
UNUM	13.0*	16.2	15.4	5.2	9.3	16.7	41.0†	18.5	2,397	201	8.4
Provident Life & Acc	12.7	10.8	10.2	13.0	9.9	5.4	5.3	–19.8	2,815	145	5.2
American General	11.4	10.8	8.6	46.5	6.6	–1.5	3.5	–11.4	4,402	467	10.6
NWNL	11.3	8.5	8.5	25.0	5.6	0.9	4.9	–13.2	1,367	47	3.4
Jefferson-Pilot	10.5	12.6	12.5	0.0	0.7	1.4	6.7	15.2	1,169	170	14.5
Liberty Corp	10.4	9.7	8.7	34.1	6.0	–0.8	NM	–25.6	351	26	7.4

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

growth (better than 10%) and superior asset quality, such as Capital Holding and UNUM.

Health insurers enjoyed three years of generally improving profitability, with premiums outpacing rising medical-claims costs, though there's some concern that earnings have peaked. Of course, the big issue for health insurers in this election year is how successful politicians will be in pressing for more affordable, more available health care coverage.

Property and casualty insurance remained in the doldrums in 1991, with insurers paying out an estimated $1.11 for every dollar of premium they wrote. This time personal lines like auto insurance weren't the problem; commercial lines were. Too many insurers chasing too

"To hell with efficiency"

WOODLAND HILLS-based 20th Century Industries is a model of efficiency. It writes private passenger auto and homeowners insurance exclusively in California, selling by telephone direct to consumers. That eliminates agent commissions, so selling costs are minimal—a mere 1% of premiums, versus about 15% for agent-sold auto policies.

The company almost never advertises, relying instead on word-of-mouth. Fully 80% of new auto insurance customers and 60% of new homeowner customers are referred by existing policyholders. Policies are processed in one highly computerized central building, while damaged cars can be driven or towed to one of several company-owned inspection centers. And of course the company tries to insure good drivers, which keeps claims costs down.

All of this penny-pinching allows 20th Century to charge some of the lowest rates around. So why does the California Department of Insurance want the company to give back some $106 million to policyholders? Simply put, the company is too profitable.

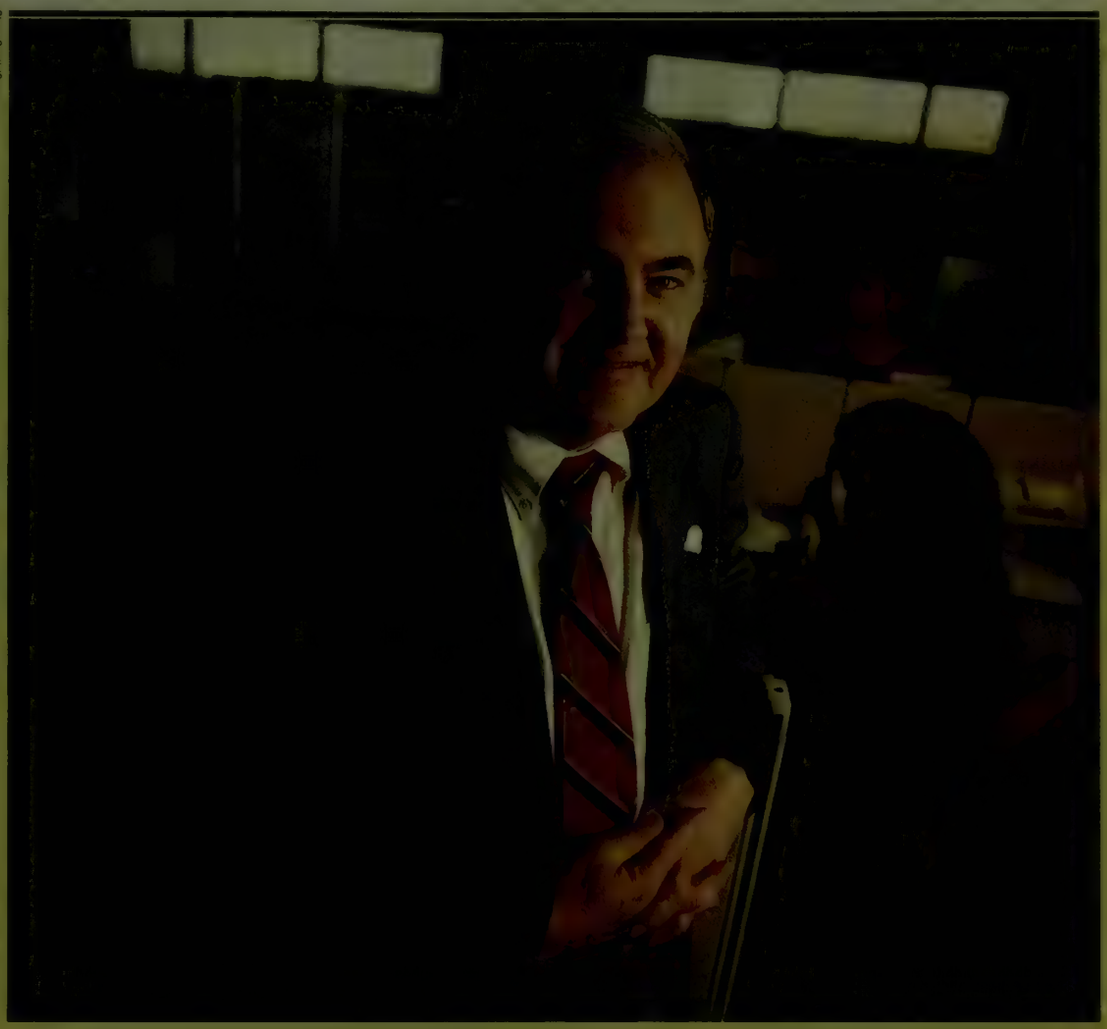
Fed up with high prices, California voters in 1988 passed an initiative calling for insurers to roll back rates. A court later ruled that insurers must be allowed a fair rate of return. Now Insurance Commissioner John Garamendi is forcing insurers to refund $2.5 billion to California policyholders for premiums they paid from November 1988 to November 1989. Among other things, the state has set the maximum rate of return on equity for all companies at 10% for that period. Anything over that has to be refunded. 20th Century's problem: It has consistently racked up around a 30% return.

Says Gerald Lewinsohn, who follows 20th Century for Merrill Lynch, "For political reasons, the California insurance department has blindly followed a formula that will generate the refunds it wants, and to hell with efficiency."

20th Century has refused to pay any rebates pending the outcome of a lawsuit it filed against the department in November. Commissioner Garamendi responded by calling the company "an insurance outlaw."

James Curley, 20th Century's president, says the department should stick to regulating rates—not rates of return: "The department is basically taking capacity away from the companies that are providing low-cost products. That cannot be in the consumer's best interest, anywhere." –C.T.G.

Steve Smith/Onyx



20th Century's James Curley
Selling insurance by phone is his number.

little business kept premium rates too low.

Rates may be heading up soon, but that may be too late to help some of the more seriously ailing property/casualty outfits like USF&G Corp. Moreover, if the economy improves, that may not be good news for insurers. Why? Any economic recovery is accompanied by an increase in automobile and other property/casualty claims: More driving and more activity mean more accidents.

"If the economy takes off rapidly and we're hit with some big weather-related losses, there's no question you'll see a record number of insolvencies," predicts Salomon Brothers insurance analyst A. Michael Frinquelli.

So Frinquelli is on the hunt for strong balance sheets—stocks like Chubb, St. Paul and W.R. Berkley.

Insurance	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Kentucky Central Life	9.6	4.5	4.8	40.0	14.7	–3.3	–8.9	–40.8	452	14	3.1
Equitable of Iowa	9.4	12.4	11.8	18.0	11.1	12.4	1.2	54.3	718	35	4.9
Pioneer Financial Svcs	8.6	def	def	20.3	64.7	28.4	NM	P-D	698	–16	def
USLife	8.4	7.7	7.2	20.5	4.9	9.4	1.7	10.3	1,333	72	5.4
American Natl Ins	8.2	8.0	7.3	0.0	7.0	13.4	–7.6	39.1	1,185	129	10.9
Broad	6.5	13.2	10.7	26.8	14.3	9.8	NM	29.4	815	42	5.2
Washington National	def	def	def	4.2	8.8*	–27.7	NM	P-D	559	–22	def
ICH	def*	def	5.7	62.5	–1.5†	–1.7	NM	D-D	1,872	–8	def
Medians	10.4	10.8	9.0	22.8	9.0	9.3	2.6	5.6	1,265	80	5.3
Property & casualty											
20th Century Inds	32.3	30.7	30.5	0.2	22.6	13.9	42.9	51.7	880	123	14.0
Argonaut Group	27.2	18.7	18.7	0.0	3.0	–10.2	30.2	17.5	540	91	16.9
Geico	26.9	20.0	17.5	22.1	10.0	5.2	6.8	–9.7	2,074	202	9.8
Hartford Steam Boiler	26.8	21.2	17.5	13.5	11.1	10.0	18.7	–1.6	615	78	12.7
Progressive	24.7	13.7	9.5	49.5	25.2	6.1	16.9	–28.0	1,455	58	4.0
Mercury General	24.5	30.8	28.9	6.2	28.4	–0.5	28.0	22.9	531	68	12.8
General Re	20.2	18.5	18.0	2.8	3.1	8.3	33.7	5.0	3,156	628	19.9
Selective Insurance	19.8	10.6	10.0	5.3	11.9	4.9	5.3*	–22.1	554	26	4.8
Chubb	18.6	17.7	15.5	18.2	10.9	6.6	34.2	19.5	4,454	568	12.7
WR Berkley	18.5	12.3	11.2	20.8	17.0	–3.6	20.8	0.7	535	43	8.1
St Paul Cos	18.5	16.3	14.3	12.6	7.8	9.8	29.8	0.0	4,284	389	9.1
Hanover Insurance	15.1	6.4	6.4	0.0	13.6	5.8	13.2	4.8	1,809	49	2.7
Ohio Casualty	15.0	14.9	14.9	0.0	5.8	5.2	14.3	41.0	1,687	97	5.7
Orion Capital	12.4	17.3	11.7	39.1	13.5	–3.4	NM	10.1	792	31	3.9
ITT	11.6	8.0	7.1	44.0	2.1	1.6	27.1	–34.4	20,524	706	3.4
Berkshire Hathaway	11.3	9.1	8.3	15.8	17.2	32.6	NM	26.9	3,028	482	15.9
Alleghany	10.6†	8.0	7.5	35.0	33.3	10.0	4.6†	–19.9	1,496	52	3.5
First American Finl	10.4	0.7	3.3	19.6	10.7	–1.7	–25.3	–88.3	710	1	0.2
Zenith National Ins	9.5	1.4	1.2	5.6	12.2	–0.2	NM	–88.0	496	2	0.4
Fremont General	8.2	15.4	12.3	31.7	NM	2.9	NM	–2.0	577	29	5.0
Xerox	7.6	8.5	8.8	41.0	9.3	1.9	–10.1	289.3	17,968	598	3.3
Foremost Corp of Amer	6.9	3.3	2.0	43.7	–2.7	2.0	NM	D-P	442	5	1.1
Continental Corp	6.3	5.9	6.2	26.9	1.7	–5.5	NM	–21.6	5,470	126	2.3
USF&G	def	def	def	17.8	4.2	–9.5	NM	P-D	4,252	–746	def
Medians	15.0	13.0	10.6	18.0	10.8	3.9	10.0	0.3	1,476	73	4.9
Brokerage											
Marsh & McLennan Cos	38.9	28.3	22.6	23.6	13.4	5.1	11.4	–0.2	2,782	306	11.0
Crawford & Co	24.9	25.8	24.1	4.2	15.7	17.9	19.3	15.3	516	36	7.0
Alexander & Alexander	16.0	10.4	10.0	28.8	7.3	3.9	4.8*	–7.6	1,364	45	3.3
Frank B Hall	def	NE	2.5	48.9	NM	10.4	NM	D-D	468	–3	def
Medians	20.5	18.1	16.3	26.2	10.3	7.7	8.1	–3.9	940	41	5.2
Industry medians	12.1	10.7	9.9	19.5	9.6	5.4	4.9	1.3	1,476	109	5.1
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

If Your Production Should Take Off When You Move To Georgia, It Wouldn't Be The First Time.

When the first B-29 rolled off the assembly line in Marietta, Georgia, it started a small revolution of its own.

Mass production, on a massive scale, had come to Georgia. Within the decade, the huge B-29 facility would be taken over by the newly formed Lockheed Aircraft Company. And, before long, transportation equipment would be the number one industry in the Atlanta area.

Today Georgia has become a major producer of everything from corporate jets to candy canes, electronic equipment to manufactured housing. For reasons that, in this case, are decidedly down-to-earth.

There's the productivity rate of Georgia workers, for instance. A rate that's substantially higher than the national average, while labor costs are substantially lower.

There's the wide choice of available sites throughout Georgia. From existing buildings, large or small, to new ones that can be finished to your own specifications. Our free, confidential site selection service can provide you location studies and detailed information, right down to site plats, building layouts, photographs, and aerial and topographic maps. And, with our one-stop environmental permitting, you can be ready for start-up within 90 days.

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So write on your letterhead or send your business card, to Charlie Gatlin, Georgia Department of Industry, Trade & Tourism, Dept. FBS, P.O. Box 1776, Atlanta, GA 30301. Or call us at 404-656-9306. And find out more about the advantages of Georgia.

We can help you get your business off to a flying start.

GEORGIA
The State of Business Today

It's a good thing the steel industry worked so hard in the 1980s to prepare for the next recession.

By Vicki Contavespi

Autos and appliances—steel's largest customers—simply aren't selling. No wonder 1991 steel shipments were down about 8%, to 78 million tons, putting downward pressure on prices.

Nobody is comparing what's happening now with the 1981-83 downturn, when the six largest U.S. steelmakers at the time lost nearly $6 billion, laid off more than 200,000 workers and cut 25 million tons of capacity.

Following that, the industry embarked on extensive plant modernization, embraced new technologies—such as continuous and thin-slab casting—and entered into joint ventures with foreign steel companies. As a result, steel companies can run at lower capacities and still turn a profit. Even so, current capacity utilization of 75% to 80% isn't high enough for some integrated steelmakers, like Bethlehem Steel and Armco, to be profitable.

Reconstituted mills, those once-failed factories that have risen from the ashes, like Utah's Geneva Steel, and minimills, like Nucor, have escaped many of the problems faced by the integrated manufacturers. Most reconstituted mills—rescued from bankruptcy—avoided union rules and pension liabilities. Minimills have lower labor costs, and most use cheaper scrap rather than iron ore. Nucor, a minimill, is no lightweight, with sales of $1.5 billion and

"A piece of stainless would be there forever"

"IT'S DISTURBING to me when I drive across a bridge and see the railing eroding. I think: A piece of stainless would be there forever," says Robert P. Bozzone. Of course Bozzone has a vested interest. He's president and chief executive officer of $1 billion (revenues) Allegheny Ludlum Corp., one of the largest domestic producers of stainless steel and specialty metals.

Bozzone sees plenty of new opportunities. Aside from the 150 pounds of stainless already in a typical kitchen (pots, pans, flatware, sinks and microwave ovens), he sees more of these alloys being used in autos, furnaces and even home electronics equipment. Allegheny Ludlum has a technology center in Natrona Heights, Pa. and employs 430 scientists and research technicians companywide. It spends over $30 million on research and development a year.

Allegheny Ludlum has gone full circle. In the 1970s the company diversified into small home appliances and renamed itself Allegheny International. Following the 1970s notion that steel was a no-growth industry, the steelmaking operations were sold in 1980 to a group led by senior management. They took the company public again in May 1987 and, unlike most steel companies, made money throughout the rest of the decade.

What's Allegheny's secret? Bozzone says that more than 15 years ago, long before its competitors did, Allegheny started using a computerized cost system. The program assigns a cost factor to every aspect of production for each product. In this way the company sets efficiency standards that it keeps trying to beat. Bozzone estimates that Allegheny saved $4 million to $5 million a year since it began using the system.

Robert Bozzone
"We're technology-driven."

The company expects to spend about $30 million in 1992 on capital improvements. A recently completed project is a cold-rolling mill in Pennsylvania that will eliminate several production steps. Bozzone figures this plant will save Allegheny $11 million a year.

It all adds up. Merrill Lynch analyst Barbara Crehan expects 1991 revenues of around $1.025 billion, with net income of $38.6 million. She has 1992 earnings at an optimistic $74 million.

With its three top officers having degrees in metallurgy, Allegheny is prepared to maintain its edge in efficiency. "We're technology-driven," says Bozzone. –V.C.

earnings of $63 million over the last 12 months.

Steel's biggest rival, aluminum, is in the doldrums. Although U.S. plants are running at a healthy 97% of capacity, aluminum inventories are high.

But the biggest problem is the current price: 49 cents a pound, close to the lowest in history, when adjusted for inflation. U.S. producers have reduced capacity about 3%, but more cutbacks may be necessary. Consumption of aluminum by Western nations is expected to decline by 1.4% in 1991. Alcoa's results for the last 12 months tell the tale—$10 billion in sales but only $114 million in profits. In contrast, the aluminum giant earned $945 million in 1989.

Relatively speaking, copper is booming at $1.04 a pound, thanks to sporadic production problems in places like Zaire, Zambia and Chile. Even so, that price is below last year's $1.15 a pound. The price could continue to soften given the current buildup in inventories and the weak demand for finished products containing copper. The same applies to nickel. Sixty percent of nickel's production goes into stainless steel. Nickel traded over $4 a pound in 1990; the London Metals Exchange recently quoted it at $3.25. ■

Metals	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Steel											
Allegheny Ludlum	46.7*	9.7	8.1	10.8	11.6	–4.7	12.2†	–62.0	1,011	34	3.4
USX-US Steel	33.6*	def	def	48.0	NM	NA	22.4†	NA	5,177	–291	def
Cyclops Industries	31.3†	def	2.8	48.7	15.9	–10.1	NA	D-D	1,095	–5	def
Birmingham Steel	26.0	0.4	0.5	39.3	23.2	–8.2	20.6*	–95.6	404	0	0.1
Lukens	19.7	16.3	13.4	6.1	12.1	–3.9	43.0*	–16.7	655	41	6.2
Worthington Inds	17.4	13.0	10.7	12.7	3.4	–4.5	4.3	–14.8	879	45	5.2
Quanex	15.3	10.2	7.4	48.1	17.1	–2.0	89.9†	–26.7	608	17	2.8
Nucor	14.9	9.7	12.1	3.1	15.8	2.1	7.9	–9.5	1,461	63	4.3
Central Steel & Wire	12.9	3.7	3.7	0.0	2.4	–14.7	NM	–64.5	457	6	1.2
AM Castle & Co	11.6	def	2.4	51.5	11.5	–5.7	NM	P-D	450	0	def
Carpenter Technology	10.2	8.1	6.2	21.4	3.3	–2.1	44.7	–39.4	564	26	4.6
Acme Steel	7.1	0.7	2.2	27.4	15.7	–14.7	NM	–79.3	387	1	0.3
Inland Steel Inds	5.2	def	def	23.2	6.6	–11.5	NM	P-D	3,465	–141	def
Armco	3.7	def	def	27.8	–10.8	–7.9	NM	D-D	1,601	–104	def
Weirton Steel	2.6	def	def	60.7	1.6	–14.5	NM	P-D	1,038	–81	def
Texas Industries	2.2	0.0	3.6	43.2	1.2	–4.6	NM	–99.4	631	0	def
Bethlehem Steel	1.0	def	def	35.2	1.5	–7.3	NM	P-D	4,493	–646	def
Lone Star Tech	def	6.8	3.5	21.6	19.1	–15.1	NM	D-P	523	9	1.7
LTV	NE	NE	def	NE	–5.2	–0.4	NM	–73.7	6,081	63	1.0
Geneva Steel	NA	20.1	12.6	42.2	NA	–9.1	NA	–53.2	481	27	5.6
Wheeling Pittsburgh	NA	NA	def	40.8	9.3	–8.8	NA	NA	994	–45	def
Medians	**11.6**	**0.5**	**2.8**	**27.8**	**8.0**	**–7.6**	**NM**	**–73.7**	**879**	**1**	**0.3**
Nonferrous metals											
Maxxam	49.3	19.8	10.8	68.5	NM	–4.7	NM	–49.6	2,296	80	3.5
Inco	44.9	8.1	7.4	30.9	23.1	–1.8	69.5†	–70.4	3,131	144	4.6
Phelps Dodge	25.2	17.8	14.4	17.3	30.4	–6.0	73.8	41.1	2,457	301	12.2
AMAX	22.1	4.5	5.0	42.7	22.8	1.8	30.1†	–55.1	3,817	100	2.6
Reynolds Metals	18.9	5.0	4.7	35.5	14.3	–1.7	30.2*	–65.1	5,879	146	2.5
Magma Copper	16.8*	11.7	8.8	38.3	21.6	–9.5	NM	–29.9	705	46	6.5
Alcan Aluminium	16.2	3.0	3.0	26.6	10.7	–5.1	30.9*	–68.6	8,165	167	2.1
Asarco	15.8	2.5	3.0	31.5	18.0	–10.2	–16.1†	–81.3	1,967	37	1.9
Cyprus Minerals	13.2	5.7	5.5	14.0	24.8	–4.0	66.3*	–46.2	1,752	80	4.6
Alcoa	13.2	2.3	4.9	15.2	12.9	–5.1	17.8*	–80.3	10,156	114	1.1
Homestake Mining	7.6*	def	def	5.9	9.8	–5.9	NM	P-D	425	–113	def
Handy & Harman	6.4	def	def	56.4	4.4	–4.5	20.4†	P-D	487	–35	def
Engelhard	4.9	12.1	11.4	14.2	4.1	–13.9	7.0	D-P	2,507	87	3.5
Newmont Mining	3.3	70.4	16.9	44.8	NM	–5.5	22.1*	–81.7	630	77	12.2
Tredegar Industries	NA	def	def	39.8	1.6	–17.7	NA	0.0	477	–14	def
Medians	**16.0**	**5.0**	**5.0**	**31.5**	**12.9**	**–5.1**	**21.2**	**–65.1**	**2,296**	**80**	**2.6**
Industry medians	**13.2**	**3.7**	**3.7**	**31.2**	**10.7**	**–5.7**	**7.5**	**–66.9**	**1,025**	**27**	**1.8**
All-industry medians	**13.2**	**9.6**	**7.6**	**32.4**	**11.3**	**3.7**	**4.5**	**–5.9**	**1,436**	**40**	**2.9**

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

In retailing, the rich are getting richer, and many of the poor will fall by the wayside. For the industry, latest 12-month earnings were down almost 6%.

By Zina Sawaya

The chasm is widening between the top retailers and the laggards. Dillard Department Stores, the Gap, Circuit City Stores, Home Depot and Wal-Mart Stores are among the haves. Federated Department Stores, Allied Stores and Ames Department Stores are among the have-nots.

The most profitable companies generally have the most sophisticated computers for tracking what sells and reordering inventory in ways that make working capital work harder than ever. Computerization is expensive, but it pays. Stocking enough goods that consumers want and keeping leaner inventories of slow-selling items enables the better-run chains to rely less on costly markdowns to move goods. Working with vendors to get them to ship their merchandise only when the stores need it cuts financing costs.

Several companies are taking their cue from Wal-Mart's success *(see box)*. In 1990 Kmart initiated a six-year

Retailing	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Department stores											
May Dept Stores	19.5	17.8	10.2	51.4	8.6	5.2	29.8	–4.6	10,537	501	4.8
Dillard Dept Stores	17.4	15.0	11.2	40.5	17.7	12.8	18.7	11.0	3,930	205	5.2
JC Penney	15.7	8.8	6.5	33.3	3.1	–1.7	14.9	–41.8	16,086	433	2.7
Mercantile Stores	14.0	10.3	9.8	14.5	4.7	1.6	4.5	–8.6	2,421	121	5.0
Strawbridge	12.1	3.7	4.7	43.3	7.8	–5.2	NM	–69.1	955	9	1.0
Equitable of Iowa	9.4	12.4	11.8	18.0	11.1	12.4	1.2	54.3	718	35	4.9
Sears, Roebuck	9.0	7.1	6.1	49.4	6.7	2.2	–4.3	–13.8	56,832	971	1.7
Alexander's	1.8	def	def	30.2	–4.1	–6.5	NM	D-D	430	–4	def
Neiman Marcus Group	def†	def	3.8	43.3	12.4	2.2	NM	P-D	1,753	7	0.4
Carter Hawley Hale	NA	NE	def	150.6	–2.7	–21.5	NM	D-D	2,245	–124	def
Medians	12.1	8.0	6.3	41.9	7.3	1.9	–1.5	–27.8	2,333	78	2.2
Apparel											
Gap	36.2	43.3	43.3	11.7	24.0	26.2	30.1	65.8	2,340	202	8.7
Limited	33.1	24.0	17.7	28.7	16.2	14.6	20.5	–0.5	5,837	375	6.4
Merry-Go-Round	29.4	25.0	21.8	14.0	30.7	23.6	35.8	9.6	732	39	5.4
J Baker	20.3*	6.1	5.9	47.2	30.3	1.9	8.8	–51.3	452	6	1.3
Charming Shoppes	19.2	16.9	15.1	9.1	17.1	12.7	3.0	40.3	982	53	5.4
Edison Bros Stores	18.9	17.7	13.4	30.1	8.0	17.0	NM	–10.9	1,348	61	4.5
Nordstrom	18.8	17.1	12.4	33.4	17.6	8.9	17.0	39.5	3,104	141	4.6
Genesco	17.9	0.6	2.8	22.8	–1.7	–1.7	NM	–86.7	477	1	0.2
Ross Stores	16.8	18.9	13.9	33.5	15.0	15.1	21.4†	8.6	903	24	2.7
Burlington Coat	12.8	10.8	9.5	28.5	18.2	9.5	6.8	3.2	896	25	2.8
Brown Group	8.9	7.9	6.9	26.9	5.8	–5.6	NM	–21.8	1,729	26	1.5
Petrie Stores	5.1	1.2	1.8	15.1	1.8	3.9	–23.5	–66.7	1,343	8	0.6
US Shoe	2.7	def	def	22.0	7.6	–1.2	NM	P-D	2,737	–29	def
Hartmarx	0.0	def	def	40.3	4.2	–5.7	NM	D-D	1,233	–27	def
AnnTaylor Stores	NA	1.5	4.7	47.3	19.8*	5.7	NA	NA	434	6	1.3
TJX Cos	NA	26.3	13.7	44.8	16.1	13.7	NM	9.7	2,672	71	2.7
Medians	18.4	13.8	10.9	28.6	16.2	9.2	3.0	–0.5	1,288	26	2.7

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.
Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Cutting out the middleman

FOR MANY retailers, post-Thanksgiving Day sales disappointed. Sam Walton was not disappointed. All 16 checkout counters were jammed the day after Thanksgiving at the Wal-Mart store in Kingsport, Tenn. The Christmas shopping season was in full swing, with a banner proclaiming "The Wal-Mart price—'Tis the reason you'll be jolly." Several happy women swarmed around a bin of Bill Blass pantyhose, on sale for $1.96. For Wal-Mart as a whole, same-store sales were up 11% for the ten months ending Nov. 30.

When Walton started Wal-Mart Stores in sleepy Rogers, Ark. in 1962, the absence of wholesalers in small towns obliged him to develop a distribution system. Today Wal-Mart has 20 highly automated centers supplying about 80% of what its 1,683 stores sell (the rest comes from wholesalers or manufacturers, directly to the stores). To move these goods, Wal-Mart operates a fleet of 1,973 trucks.

"We are agents for our customers," says David Glass, 56, Wal-Mart's president and chief executive officer. "We want to sell them what they want to buy, and the name of the game is who can most efficiently deliver that merchandise from raw materials to the customer."

Its well-oiled distribution system enables Wal-Mart to cut out the middlemen for a growing portion of its merchandise. Instead of wholesalers' sending small shipments to each store, the manufacturer ships, say, 25 truckloads of an item to one of the Wal-Mart distribution centers. There the merchandise is sorted mechanically and sent to the individual stores.

Besides eliminating the wholesalers' markups and reducing its cost-of-sales line, this allows Wal-Mart to work closely with manufacturers. A manufacturer like Gitano can access Wal-Mart's point of sale terminals to track sales of its jeans. This way, Gitano knows when to crank up production to resupply a Wal-Mart store before the store runs out of merchandise. Wal-Mart's Electronic Data Interchange system enables it to electronically place orders with a manufacturer.

But Wal-Mart goes further. It works with its suppliers and with its suppliers' suppliers. For example, with a company like Gitano it will work with the fabricmaker and even the fiber producer. "We just tie everyone into the loop," says Glass. "You won't call the apparel manufacturer and have them say, 'Gosh, we'd make that for you, but we don't have any fabric.' "

The ability to do all this costs money. Over the past five years the company has invested $600 million in inventory management equipment and other technology. A satellite communications system allows it to track inventory and handle accounting and payments. It even allows employees to transmit their suggestions to their store manager, who, in turn, might send the suggestion on to headquarters. Glass claims that Wal-Mart gets most of its ideas at the grass roots level.

Eli Reichman

David Glass of Wal-Mart
A company forced to be efficient from the start.

While most retailers are cautiously husbanding resources, Wal-Mart plans to add about 150 stores in 1992. This is likely to be bad news for East and West Coast retailers like Caldor and Ames, because a good part of this expansion will be directed at them. –Z.S.

modernization program. It improved its inventory control system by installing point-of-sale equipment in all of its stores and transferred all of its merchandising to centralized locations. Kmart's sales for the nine months ended in October were up almost 8%, to $24 billion, while net income increased 7%, to $380 million. Going into the all-important Christmas quarter, same-store sales in November, including the traditional Thanksgiving weekend shopping rush, were up 0.6%.

But what of those companies burdened with debt or hindered by weak organization? Federated Department Stores, which was brought down by the collapse of Robert Campeau's empire, is expected to emerge from bankruptcy in February as a publicly traded company, but Federated will have a tough time catching up if it doesn't have the necessary funds to invest in new technology or upgrade its stores. Both Hills Department Stores and Carter Hawley Hale filed for Chapter 11 in February 1991.

Carl Steidtmann, chief economist at Management Horizons, a division of Price Waterhouse, notes that retailers

Retailing	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Consumer electronics											
Intelligent Electron	33.2	26.4	27.6	10.2	137.5	26.4	111.0*	33.3	1,709	38	2.2
Circuit City Stores	26.0	14.8	12.7	19.1	27.4	11.6	22.5	–30.8	2,519	55	2.2
MicroAge	17.8	9.5	10.3	17.6	39.0	26.4	NM	–48.6	787	3	0.4
Tandy	16.8	10.7	10.0	14.3	8.7	–1.6	4.7	–29.3	4,530	196	4.3
InterTAN	11.4	3.9	4.0	14.5	11.8	–3.0	–25.4†	–61.1	679	9	1.3
Best Buy Co	8.8	12.4	10.2	11.7	38.8	23.4	NM	18.1	746	7	1.0
Egghead	3.6	14.6	14.7	0.6	58.7	19.9	NM	197.1	594	17	2.9
Highland Superstores	def	def	def	155.0	11.3	–13.9	NM	D-D	785	–89	def
Medians	14.1	11.6	10.2	14.4	33.1	15.7	NM	–30.0	786	13	1.7
Drug & discount											
Pamida Holdings	56.7*	def	6.6	95.9	7.0	4.4	NM	P-D	670	–2	def
Wal-Mart Stores	35.0	27.7	21.4	33.1	30.3	33.8	32.1	19.3	40,748	1,488	3.7
Walgreen	20.8	20.5	16.5	9.9	12.7	11.3	15.1	11.7	6,733	195	2.9
Arbor Drugs	19.9	20.3	15.7	20.7	20.4	18.9	19.6	14.8	406	13	3.2
Drug Emporium	19.3	1.3	3.9	51.9	31.8	28.0	31.4*	–90.5	699	1	0.1
Pic'N'Save	18.5	14.9	11.5	31.0	14.3	2.5	–10.5	111.4	524	30	5.7
Rite Aid	18.1	14.6	10.3	34.5	18.3	8.9	9.1	8.4	3,599	115	3.2
Dayton Hudson	17.9	13.9	8.4	58.6	11.7	9.6	14.4	–18.5	15,731	344	2.2
Longs Drug Stores	17.6	14.1	13.3	0.0	9.3	6.2	13.3	–7.6	2,398	57	2.4
Family Dollar Stores	17.2	20.4	19.0	0.0	15.3	13.1	5.6	39.4	989	40	4.1
Woolworth	16.7	9.6	9.0	9.2	10.6	3.4	13.4	–35.5	9,842	224	2.3
Fay's	16.3	11.8	9.7	54.0	8.4	22.4	39.3	–15.7	788	9	1.2
Kmart	13.8	14.3	11.3	38.0	7.4	5.3	12.9	129.9	34,037	782	2.3
Genovese Drug Stores	13.5	16.6	11.8	39.8	13.5	3.4	12.8	94.9	444	7	1.5
Dollar General	9.9	13.5	12.8	22.0	2.5	10.8	NM	37.2	713	18	2.5
Venture Stores	9.9	43.3	21.8	45.6	7.0	4.4	NM	16.9	1,480	39	2.7
Fred Meyer	9.8	12.3	8.7	46.1	9.8	6.2	6.0	D-P	2,593	38	1.5
Medco Containment	8.9	16.3	15.6	0.4	56.2	33.7	41.6	500.0+	1,442	70	4.9
Consolidated Stores	7.6	6.7	7.4	27.5	25.5	8.9	–19.7	D-P	734	10	1.4
Pacific Enterprises	6.7	9.4	6.5	37.7	7.0	–2.4	NM	D-P	6,763	189	2.8
Big B	5.6	8.5	7.1	31.2	22.2	5.3	NM	D-P	484	6	1.2
Rose's Stores	0.5	def	def	39.9	8.4	–4.8	NM	P-D	1,466	–34	def
Jamesway	def	def	def	50.7	11.5	–3.8	NM	D-D	909	–20	def
Perry Drug Stores	def	0.7	4.7	71.4	3.4	–3.3	NM	–94.6	637	0	0.1
Ames Dept Stores	def	NE	def	216.8	23.0	–25.8	NM	D-D	3,122	–304	def
Hills Dept Stores	def	NE	def	198.9	9.7	–17.6	NM	D-D	1,803	–254	def
Caldor	NA	7.9	6.8	68.3	5.7*	5.2	NA	D-P	1,837	2	0.1
Medians	13.7	12.3	9.0	38.0	11.5	5.3	5.8	14.8	1,466	18	2.2

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

have shed over 350,000 jobs since July 1990. This and other cost-cutting moves have created considerable operating leverage for several companies. Indeed, Steidtmann expects that overall retail sales will be flat or down when the 1991 books are closed, but profits will be up between 5% and 8%. Once revenues begin to increase, profits for some companies should grow dramatically.

Which companies are best positioned for the year ahead? If the economy remains relatively weak, cost-efficient discount stores such as Kmart, Wal-Mart, Walgreen and Dayton Hudson's Target Stores—and wholesale clubs like Price Co.—probably have the edge over department store chains like Macy's and Bloomingdale's. Wal-Mart and Price are now bringing their stores to consumers on the East and West coasts. "Wal-Mart really has established this tone throughout the industry and that's now taken hold in department stores," says Christine Fasano, a retail analyst with Donaldson, Lufkin & Jenrette. "Consumers have been well trained now [to wait for sales], and it's not easy for retailers to change that."

Retailing

Company	Profitability: Return on equity, 5-year average %	Profitability: Return on equity, latest 12 mos %	Profitability: Return on capital, latest 12 mos %	Profitability: Debt/capital %	Growth: Sales, 5-year average %	Growth: Sales, latest 12 mos %	Growth: Earnings per share, 5-year average %	Growth: Earnings per share, latest 12 mos %	Sales latest 12 mos $mil	Net income latest 12 mos $mil	Profit margin latest 12 mos %
Home improvement											
Home Depot	27.2	27.8	19.0	13.7	40.1	37.6	53.5	33.3	4,846	223	4.6
Grossman's	12.1	def	2.5	32.4	–5.3	–0.1	NM	P-D	811	–2	def
Lowe's Cos	11.8	8.0	7.5	16.5	6.0	3.0	6.1	–26.5	2,933	55	1.9
Hechinger	10.7	5.8	5.4	26.7	25.3	11.8	NM	–26.1	1,559	27	1.7
Waban	NA	7.8	8.0	21.6	39.6	15.0	NA	0.0	2,681	23	0.9
Medians	**11.9**	**7.8**	**7.5**	**21.6**	**25.3**	**11.8**	**NM**	**–26.1**	**2,681**	**27**	**1.7**
Home shopping											
Lands' End	35.2	19.7	19.0	1.4	23.4	11.3	11.6	46.3	641	23	3.6
Blair	31.7	25.3	25.3	0.0	7.6	3.9	16.6	–8.2	488	33	6.7
Spiegel	21.1	8.8	6.9	63.1	19.1	7.7	25.0	–46.5	2,037	40	2.0
Service Merchandise	10.0	269.2	17.0	96.5	7.3	–0.6	27.6†	28.7	3,414	70	2.0
Home Shopping	7.0	def	1.6	52.9	37.9	7.0	NM	P-D	1,079	–10	def
QVC Network	5.0*	12.4	7.6	61.1	NM	10.0	NM	D-P	890	20	2.2
CUC International	4.1	NE	37.8	93.2	38.5	22.7	19.3	119.8	501	24	4.9
Horn & Hardart	def	NE	def	200.0	9.6	13.9	NM	D-D	606	–134	def
Medians	**8.5**	**10.6**	**12.3**	**62.1**	**14.3**	**8.8**	**14.1**	**10.2**	**766**	**24**	**2.1**
Specialty retailers											
Sotheby's Holdings	45.6	6.9	7.9	0.1	24.5	–46.6	58.3*	–83.0	248	22	9.0
Tiffany	40.4	19.6	18.3	20.9	25.2	9.3	41.3	–5.9	485	35	7.3
AutoZone	34.2*	47.0	30.4	3.2	24.4	21.8	78.2	70.1	818	44	5.4
Blockbuster	33.1	24.6	19.7	33.5	NM	36.3	84.4†	30.0	796	86	10.8
Jostens	33.0	23.1	20.5	9.3	9.1	7.6	7.7	3.9	860	64	7.5
Price Co	22.8	21.1	17.8	39.1	19.8	24.8	17.0	8.5	6,598	134	2.0
Toys 'R' Us	20.9	15.0	13.4	8.0	23.5	10.3	23.7	–4.5	5,683	312	5.5
Costco Wholesale	17.8	19.6	18.2	0.6	46.4	28.4	82.9	58.6	5,305	85	1.6
Smart & Final	16.1*	2.8	3.3	2.6	13.8*	NA	18.1*	NA	648	2	0.3
Getty Petroleum	15.2	def	def	56.8	NM	6.4	NM	P-D	1,231	–22	def
Pier 1 Imports	14.8	8.1	6.6	41.7	24.7	28.5	NM	–41.1	715	13	1.9
Pep Boys	13.8	10.3	7.5	43.2	17.9	9.3	8.7	–8.6	971	36	3.7
Office Depot	11.8†	7.5	6.3	6.5	162.1†	108.0	NM	–16.7	1,141	10	0.9
Town & Country	7.5	18.3	10.6	64.9	46.4	–15.2	NM	153.7	353	16	4.7
Dart Group	4.4	1.6	5.5	31.2	53.6	14.2	NM	–60.4	1,139	5	0.4
General Host	2.9	11.8	9.5	47.5	–3.5	0.5	NM	237.9	514	18	3.4
Lionel	0.3	def	def	56.9	12.7	–12.2	NM	D-D	382	–32	def
Child World	def	def	def	130.7	9.9	–13.8	NM	P-D	727	–217	def
Value City Dept	NA	NA	NA	15.5	17.4	9.0	NA	52.4	586	22	3.7
Medians	**15.7**	**11.1**	**8.7**	**31.2**	**19.8**	**9.3**	**8.2**	**–5.2**	**796**	**22**	**3.4**
Industry medians	**14.0**	**10.5**	**9.3**	**32.4**	**13.5**	**7.7**	**4.5**	**–5.9**	**1,079**	**24**	**2.2**
All-industry medians	**13.2**	**9.9**	**7.6**	**32.4**	**11.3**	**3.7**	**4.5**	**–5.9**	**1,436**	**40**	**2.9**

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

Railroads enjoyed one of their better years in 1991, but truckers weren't as lucky. Now the old foes are getting more serious about intermodal cooperation.

By Roula Khalaf

Railroads got a shot in the arm from a presidential emergency board set up in 1990 to mediate the dispute between railroads and their labor unions. Last January the board recommended wage increases of 10% spread over three years, in line with inflation but far below what the unions wanted. A brief strike ensued. But Congress responded by passing legislation that affirmed the board's recommendations.

Congress also reiterated the board's decision that individual railroads must negotiate agreements with unions over the number of crew members needed to run a train or face binding arbitration. Many railroads still operate with four-man crews—an engineer, a conductor and two brakemen. At the least, the industry wants to eliminate the second brakeman.

Veteran railroad analyst Isabel Benham, of Printon, Kane Research, says such a move could save the industry over $1 billion over a period of years. Up to now only Burlington Northern, Norfolk Southern and Illinois Central have reached such agreements with their unions.

Railroad stocks rallied in 1991 on the news of labor gains. This encouraged railroads to reduce debt on their

Transport	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Railroads											
Burlington Northern	20.5	def	def	53.2	3.5	–3.3	–6.2	P-D	4,531	–322	def
Union Pacific	13.4	1.4	2.5	36.8	NM	2.2	5.8†	–90.4	7,041	56	0.8
Norfolk Southern	10.8	10.5	6.4	15.1	3.9	–2.8	10.1	–6.5	4,471	501	11.2
CSX	10.3	11.4	6.7	30.2	3.2	6.1	13.7*	0.7	8,547	409	4.8
Consolidated Rail	6.8†	7.9	6.6	31.4	1.6	–3.2	–7.3	148.9	3,246	245	7.6
Kansas City Southern	4.2	9.9	8.2	32.8	1.4	17.3	NM	–23.0	581	41	7.1
Illinois Central	NA	42.9	14.1	50.9	–8.3	–3.4	NA	NA	537	59	11.0
Santa Fe Pacific	NA	3.6	5.1	46.4	1.6*	–0.7	NM	D-P	2,308	32	1.4
Medians	10.6	8.9	6.5	34.8	1.6	–1.8	–6.2	–6.5	3,859	58	6.0
Trucking & shipping											
Alexander & Baldwin	25.9	12.9	8.7	36.4	8.2	0.9	17.5	–19.5	710	88	12.3
JB Hunt Transport	21.8	14.6	8.9	38.0	34.9	25.7	12.3	–10.4	695	28	4.0
Roadway Services	13.6	15.5	14.6	0.0	14.1	7.3	10.7	17.7	3,082	121	3.9
Yellow Freight Sys	12.0	7.6	6.4	19.0	8.8	2.8	NM	52.2	2,347	38	1.6
Carolina Freight	4.4	2.1	3.1	39.1	6.5	7.3	–39.3	D-P	762	3	0.4
Consol Freightways	3.9	def	def	40.4	18.3	1.3	NM	D-D	4,164	–36	def
American President	0.3	11.7	7.6	44.2	14.6	8.4	NM	D-P	2,414	56	2.3
Preston	def	1.0	4.2	53.8	13.3	–12.9	NM	D-P	570	1	0.2
Medians	8.2	9.6	7.0	38.6	13.7	5.0	NM	P-D	1,555	33	2.0
Air freight											
Air Express Intl	31.5	24.1	18.9	32.0	14.7	7.5	23.9*	14.6	593	13	2.1
Harper Group	15.4	14.2	12.0	16.3	22.2	7.6	17.8	5.1	457	19	4.2
Airborne Freight	12.3	9.1	9.1	39.7	20.5	17.6	16.4	–32.7	1,325	29	2.2
Federal Express	6.6	def	2.3	50.1	25.9	4.3	NM	P-D	7,598	–20	def
Pittston	2.5	13.0	11.1	11.9	9.2	9.3	NM	377.1	1,929	63	3.2
Medians	12.3	13.0	11.1	32.0	20.5	7.6	16.4	5.1	1,325	19	2.2
Industry medians	10.8	9.9	6.7	36.8	8.8	4.3	–6.7	2.9	2,308	38	2.3
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	–5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

balance sheets. Last May, for example, Illinois Central sold 4 million common shares for $75.5 million.

Meanwhile, cargo volumes were down nearly 5% for the first 45 weeks of the year, led by losses in autos, lumber and metallurgical coke. But next year should be better. The 1990 Clean Air Act, which calls for the use of lower-sulfur coal, should boost traffic for lines like Burlington Northern and Union Pacific. Thanks to chaos in the old Soviet Union, U.S. grain shipments should also improve.

The railroad industry scored another gain on Capitol Hill in 1991, this one at the expense of the truckers. Railroad lobbyists succeeded in inserting provisions in the House and Senate highway bills to freeze the proliferation of the truckers' double 48-foot and triple 28-foot trailers on the nation's highways. These behemoths, now running in 17 states, will not be allowed in other states.

This is bad news for the truckers, who don't need bad news. Their operating margins were under intense pressure in 1991. With depressed markets for durable goods, the industry was unable to pass along rate increases.

Perhaps in response to hard times, the trucking industry has gotten more serious about an old idea: "intermodalism," or moving trailers and containers by a combination of transport modes. J.B. Hunt and Santa Fe Pacific, for example, expanded their intermodal operations in 1991. Hunt trucks freight to Santa Fe's railhead in Chicago for transport to Los Angeles, where another Hunt truck picks up the container again for delivery both locally and to neighboring states.

The air freight industry also felt the sting of the recession. Many customers were willing to wait a few more hours or even an extra day for packages. In response, both Federal Express and Airborne Freight expanded their "deferred" services.

In the shipping industry, American President Cos., which operates container ships in the Pacific, benefited from moving military freight to the Middle East during the Gulf war and moving this equipment back to the U.S. after the war ended. But Alexander & Baldwin, which operates ships between Hawaii and the U.S. Pacific Coast, was hurt by the war and the recession, which led to a steep drop in tourism on the island.

"The enemy was us"

IN THE mid-1980s Union Pacific Railroad, the nation's second-largest railroad, was running on the wrong track. Customers were alienated, shareholders were angry and truckers were taking away sales.

This began to change in 1986 when former Secretary of Transportation Drew Lewis was hired to run the railroad. Since 1986 Lewis, who quickly moved up to become the parent's chairman, has turned the railroad into one of America's most efficient lines.

Recognizing that low-density lines bring little profit and are best left to short-haul operators that use nonunion labor, Lewis shed nearly 3,000 miles of Union Pacific's unprofitable track.

Of equal importance, Lewis cut management ranks by half, wiping out 800 jobs in the process. He also got tough with the unions. The number of Union Pacific's rail employees fell from 43,000 in 1984 to 29,500 last year. Union Pacific has three-member crews on 90% of its runs. The railroad has been negotiating with labor to cut yet another crew member.

"When we asked our frontline managers what was preventing them from being customer-responsive, they said the bureaucracy was standing in the way," explains Richard Davidson, a Union Pacific veteran who took over day-to-day railroad operations last year. "It was like we found the enemy and the enemy was us." After weeding out redundant managers and workers, Davidson can now brag of an 85% customer satisfaction level.

Lewis achieved much of this success by centralizing operations and using computer technology. Back in the mid-1980s the railroad had thousands of agents scattered around the western U.S. to take customer orders and handle billing. There were many more yard offices that acted as middlemen between headquarters and train crews. Lewis moved all these positions to a customer-service center in St. Louis.

Eli Reichman

Union Pacific's Richard Davidson
Weeding out redundancy.

Lewis also consolidated ten regional train dispatch centers into a war room in Omaha, equipped with two huge electronic panoramas, each stretching the length of a football field. This setup can follow, on screen, the movement of more than 700 trains across 19,000 miles of track. The railroad is also spending $90 million to install computers on trains.

"Prior to Drew Lewis' arrival, our holding company thought the railroad had lost its sex appeal," says Davidson. "Five years later, it has recognized that the railroad is really the crown jewel of the corporation." –R.K.

The words "airline" and "terminal" are often linked. In the 1990s they have a new, and painful, association.

By William Heuslein

Hard on the heels of a record $3.9 billion loss in 1990, the airlines lost another $2 billion last year—bringing the two-year deficit close to a staggering $6 billion.

The grinding industry recession—driven by too many seats and too few travelers—has proved fatal for a number of carriers. Eastern, Pan Am and Midway all stopped flying last year. Continental and America West remain under Chapter 11 bankruptcy protection. Carl Icahn's heavily indebted TWA is preparing to file a prepackaged bankruptcy by early 1992. But at the same time, TWA is flirting with a merger with Continental.

Midway, a product of airline deregulation, failed to survive after it couldn't come to final terms for its acquisition by NWA, the parent of Northwest Airlines. Privately held and financially strapped Northwest also couldn't consummate a plan to take over the operation of the still-for-sale Trump Shuttle. The shutdown of Pan Am put 7,500 people out of work and closed the books on a pioneer in U.S. aviation history.

In the months before Pan Am collapsed, would-be savior Delta paid over $400 million for Pan Am's Northeast shuttle, its remaining transatlantic routes, its Frankfurt hub and its European operations. Delta was also supposed to have a 45% stake in a reorganized Pan Am. But after providing Pan Am with $115 million in emergency operating cash, Delta abruptly turned off the faucet in December and pulled away from its financing deal.

Following Pan Am's shutdown, its JFK-to-Mexico City route was auctioned off to Delta for $25 million. Pan Am's last important assets, the remaining Latin American route authorities, were won by UAL's United Airlines, which came up with a bid of $135 million in cash. (The deals are still subject to government approval.)

Does the shakeout mean a turnaround is coming? "This was a purging process that was necessary to get rid of excesses in the system," says industry analyst Kevin Murphy of Morgan Stanley. Certainly Delta, United and

Travel	Profitability				Growth				Sales	Net income	Profit margin
	Return on equity				Sales		Earnings per share				
Company	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/ capital %	5-year average %	latest 12 mos %	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Airlines											
UAL	25.6	def	def	41.1	9.0	9.0	NM	P-D	11,556	-203	def
Southwest Airlines	9.7	2.2	2.3	37.2	11.2	10.8	8.0	-76.9	1,264	13	1.1
Alaska Air Group	9.2	def	2.0	55.9	20.6	8.2	NM	P-D	1,097	1	0.1
AMR	8.6	def	def	54.8	15.7	10.5	NM	P-D	12,485	-330	def
Delta Air Lines	6.1	def	def	32.5	16.0	10.4	NM	P-D	9,526	-260	def
USAir Group	def	def	def	50.4	36.5	1.8	NM	D-D	6,509	-528	def
America West Airlines	def	def	def	106.8	41.3	15.1	NM	D-D	1,436	-224	def
Continental Airlines	def	NE	def	NE	22.4	-15.6	NM	D-D	5,552	-2,555	def
Medians	7.3	def	def	45.7	18.3	9.7	NM	P-D	6,031	-242	-2.7
Hotels & gaming											
Circus Circus	42.1	53.0	16.1	54.5	15.9	25.3	27.3	32.8	795	99	12.5
Carnival Cruise Lines	34.1	20.7	12.1	44.0	35.1	13.9	22.3	2.6	1,505	216	14.4
Caesars World	22.5	20.3	13.7	48.4	5.1	2.9	7.6	73.0	906	58	6.5
Marriott	19.1	0.2	4.7	77.3	12.6	6.8	-11.9	-99.0	8,143	1	0.0
Hilton Hotels	14.9	8.9	6.6	34.0	9.8	10.1	3.4	-25.1	1,117	82	7.3
Mirage	12.9	16.8	8.7	73.8	NM	17.3	NM	-14.0	894	27	3.0
Aztar	5.5	0.2	3.4	34.2	-5.4	0.7	NM	-99.1	486	2	0.4
Bally Manufacturing	def	def	def	76.0	8.8	-16.4	NM	D-D	1,724	-221	def
Promus Cos	NA	4.4	5.2	66.3	5.2	2.7	NA	NA	1,019	12	1.2
Medians	17.0	8.9	6.6	54.5	8.8	6.8	-4.3	-19.5	1,019	27	3.0
Industry medians	9.4	0.2	2.3	50.4	12.6	9.0	NM	P-D	1,436	1	0.1
All-industry medians	13.2	9.9	7.6	32.4	11.3	3.7	4.5	-5.9	1,436	40	2.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. D-Z: Deficit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. *Four-year average. †Three-year average. For further explanation, see page 95.

Sources: Forbes; Value Line Data Base Service via Lotus CD Investment.

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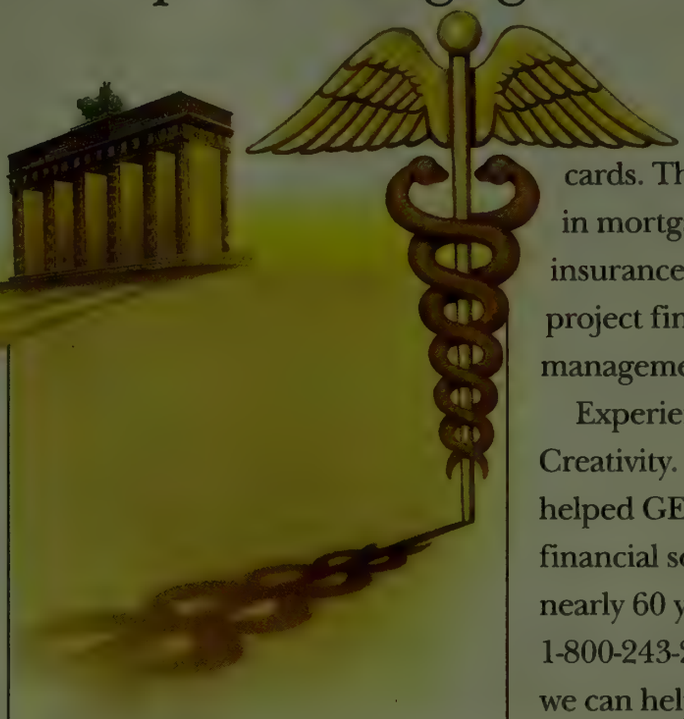
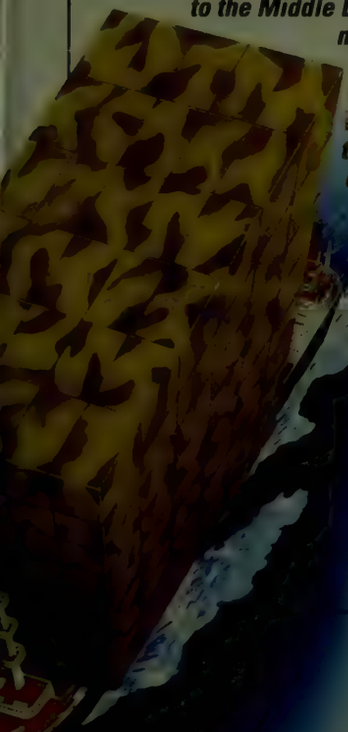


When growth-minded businesspeople need to acquire the latest equipment — anywhere in the world — GE Capital Commercial Equipment Financing comes through. When a group of German doctors needed radiology equipment to set up a clinic in what used to be East Germany, GE Capital provided the DM 6.9 million they needed.

Seeking to refinance $76 million in turnpike bonds, the State of New Hampshire put together a fixed/variable rate structure combining Dutch auction and residual interest bonds. This enabled them to sell the debt at variable rates without interest rate risk. To increase the bonds' value, the state needed a guarantor skilled in evaluating its credit-worthiness as well as the complexities of such relatively new structures—at a competitive price. One insurer met these criteria: GE Capital subsidiary Financial Guaranty Insurance Company.



When Operation Desert Storm began, the U.S. had to ship vast amounts of materiel to the Middle East. On very short notice major U.S. shipping lines were asked to assemble thousands of containers. They called on Genstar, a GE Capital subsidiary and the world's largest marine container leasing company. We responded quickly with an extraordinary 15,000 forty ft. containers.

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Retailer Financial Services • TIP • Transportation and Industrial Funding • Vendor Financial Services

American have all been able to expand their international operations. But Samuel Buttrick, an analyst at Kidder, Peabody, warns that while survivors are now in a better position to face heavy competition from foreign carriers, many of which are government subsidized, investors shouldn't get carried away. "Moving from an industry that competes on a national basis to one that competes on a global basis should not necessarily be viewed as a competitive shift that will produce windfall profits," he says.

How about the hotel business? It's feeling the grips of the recession and business travel cutbacks, too. The industry is battling overcapacity, collapsing property values, high fixed operating costs and hefty debt service.

Gambling hasn't been left unscathed, either. Revenue growth in Las Vegas last year was half of the 1990 pace. More casino operators, such as Stephen Wynn's Mirage Resorts and Kirk Kerkorian's MGM Grand, are getting into family resorts, theme-park-like amenities and casinos for low- and middle-income gamblers—a market first identified by Circus Circus Enterprises. With more revenue-hungry states looking at legalizing gambling, this could be a timely move for the Nevada casino operators.

Managing for the long haul

HOW DOES an airline become more efficient than its competitors? One way is with new, fuel-sipping aircraft. Chicago-based UAL, the parent of United Airlines, has a four-year, $15.8 billion spending program in place—with 223 fuel-efficient Boeing planes on order. As the decade progresses this could help United close the gap with American (AMR), which has decided to scale back its own ambitious capital-spending program because of lower profits.

At the moment profits are elusive for United as well: The company expects record losses in 1991. Matters are not helped by the fact that United is up against two Chapter 11 carriers—Continental and America West—which have resorted to discount pricing.

Despite these problems, Chairman and Chief Executive Stephen Wolf and Chief Financial Officer John Pope haven't backed down on their plan to make United a global leader. It still has a respectable balance sheet; its debt-to-capital of 41% is below the industry average. And there's a nest egg of $1.3 billion in cash, making it possible for Wolf and Pope to build an efficient international route structure.

The core routes in each of United's international divisions—the Pacific, the Atlantic and, soon, Latin America—were once operated by Pan Am. Remember that Pan Am's dominant problem was that it had an entirely insufficient domestic route structure to feed its international network. United doesn't suffer from that.

Many of the new assets have come to UAL at bargain prices. Its acquisition cost of Pan Am's routes to London's Heathrow ($290 million) was lower than what Dallas-Fort Worth-based American paid for TWA's Heathrow routes ($445 million). The same holds true for United's recent $135 million winning bid for Pan Am's Latin American route system ($100 million below United's offer last summer for the operations). In contrast, AMR paid $425 million in 1990 to acquire Eastern's Latin routes.

On the domestic front, UAL recently proposed a $76 million offer for Air Wis Services (Air Wisconsin), which would become the first UAL-owned commuter carrier in its network of four feeder lines. The goal? To have one seamless airline that can feed in customers from small-town airports such as Oshkosh and Cedar Rapids and take them as far as Seattle or Tokyo.

UAL and its management survived the collapse of the corporate takeover attempt in 1990 with little damage to reputation and credibility. These days relative labor harmony has replaced a contentious atmosphere.

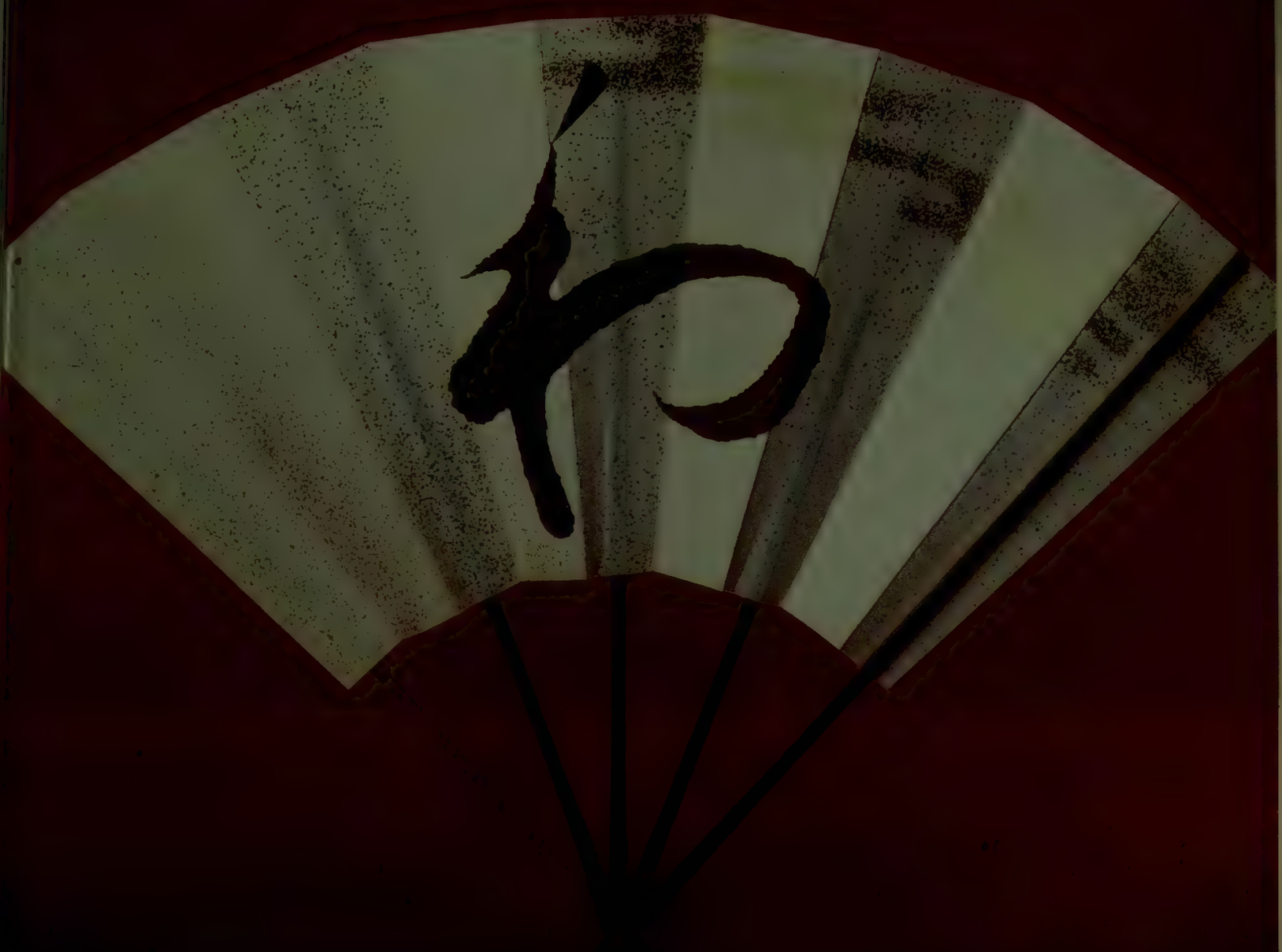
Now, with most of UAL's distractions left behind, Wolf and Pope are managing the airline for the long haul. –W.H.

Lewis Toby

Stephen Wolf, UAL Corp. chief executive **He's facing record losses but still snatching up choice assets from weaker carriers.**

JAPAN AND THE UNITED STATES: LOOKING TOWARD A NEW ERA OF MUTUAL RELIANCE

A Japanese sensu fan with the character "Wa" written on it is a most fitting symbol for this year's special section on Japan. "Wa" suggests "harmony" and "peace" and is the character representing Japan's name. In a sense, Japan itself is harmony, and the Japanese people constantly search for mutual understanding in their dealings with others.



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An Increasingly Important Interdependence

We are at one of those turning points in history which define an era. We won the cold war; Soviet military power is receding; Western concepts of democracy and free markets are being embraced even in the Communist world. In the future international economic issues will assume even greater prominence, and a strong economy will be even more crucial to our national security.

Relations between the United States and Japan, as the two largest and most innovative economies, will exert a decisive influence on the shape of this new era. Between us we account for nearly 40% of the world's output. We are the world's largest donors of official assistance. We are each other's largest overseas market, and biggest source of foreign direct investment and technology. Both our ideas and our products have profound influences on thinking in both countries and that of the rest of the world.

While our governments are necessary partners in creating a new world order, our companies are also natural commercial competitors. Sizable imbalances persist in the flows of trade, investment, and technology between us. This requires that both Japan and the United States make further efforts to extend the benefits we derive from our interdependence, and to assure that those benefits are equitably shared.

Americans are beginning to recognize that Japan's extraordinary industrial prowess owes much to its attentiveness to economic fundamentals—i.e. high levels of savings and investment, rapid productivity increases, a growing commitment to research and development, and rigorous training of young people in mathematics and science. This is stimulating increased awareness of our own need to devote more attention to basics.

Such recognition of what we can learn from each other will certainly revitalize our partnership in the coming decade. Together we must preserve a stable security environment in the Pacific Basin; strengthen the global trading system; promote a further harmonization of our industrial structure and business practices; and collaborate to deal with new transnational problems.

We shall continue to encourage Japan to accelerate the opening of its market. If American companies are to take advantage of new business opportunities in Japan, however, it is essential that we address competitiveness issues with greater purposefulness and a greater sense of urgency at home. And American companies that wish to play a significant global role must master the requirements of success in the Japanese market.

Forbes' special supplement provides a rich and vivid portrait of Japan. It offers readers of this magazine a clearer understanding of what makes Japan tick, why its businesses do well, what we can learn from their experience and, most importantly, how our firms can capitalize on the incredible range of opportunities available here in the 1990s and beyond.

Michael H. Armacost
United States
Ambassador to Japan

THE NEW JAPAN-U.S. RELATIONSHIP

Japan's top executives speak out in the following pages about the new Japan-U.S. relationship.

"Some years back," one executive says, "people expressed the Japan-U.S. relationship by saying that when the U.S. economy sneezed, the Japanese economy caught a cold. Today however, the two countries are equal partners. If the U.S. economy sneezes now, the Japanese economy also sneezes."

The new relationship is visible in many forms, not all of them economic. For example, Americans today hold Japanese corporations responsible for their words and actions in the U.S. And numerous examples in this year's special section clearly show how the companies have responded as good corporate citizens to support their local communities throughout the country.

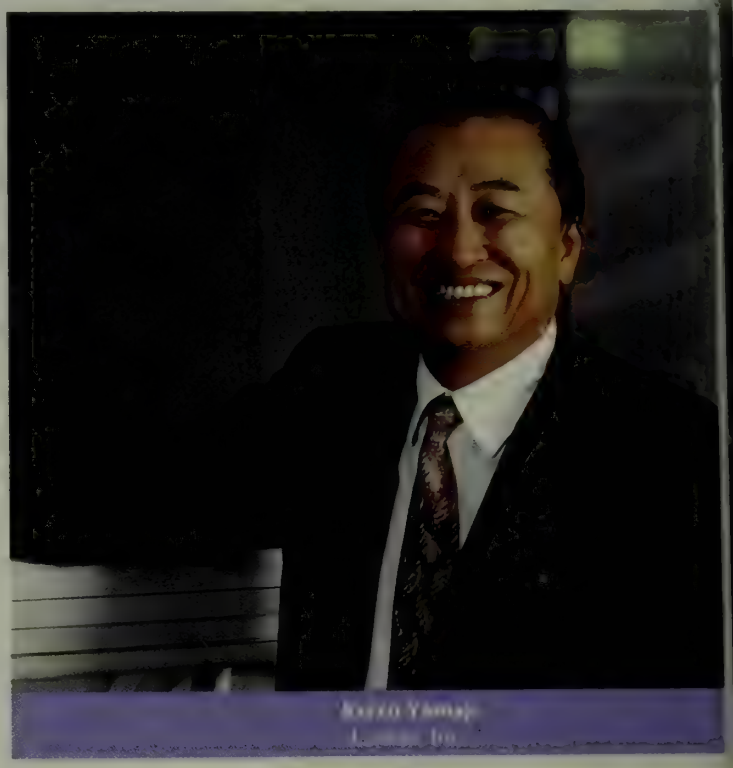
With the disintegration of the Soviet Union, the U.S. has emerged as the world's most powerful nation. Japan, on the other hand, is recognized as a leading industrial nation whose tremendous economic influence is felt worldwide. In the emerging new world order for achieving peace, therefore, the Japan-U.S. relationship of mutual reliance can only increase in significance.

In these pages you will see how Japan's business leaders are emphasizing that this is indeed the time to energetically promote greater understanding between Japan and the United States.

CANON

Canon Inc. has a company philosophy and management strategy that complement one another. President **Keizo Yamaji** explains, "Our corporate philosophy is to conduct business activities in ways that contribute to world peace and prosperity."

The principle of Canon's basic management strategy — "mutual coexistence" — requires some explanation. "The Chinese characters for this expression are replete with meaning," Yamaji says. "We interpret the combination of characters to mean people and people, people and machines, and people and nature."



In a sense, all of Canon's corporate actions are based on its fundamental management strategy. For people and people, Canon began by helping people to communicate more effectively with each other through images and information — first of all, with Canon cameras. As Yamaji observes, "Canon began with cameras, so that people could communicate with each other by means of visual images. This was followed by diversification into business machines, which enhanced information communication. As the saying goes, a picture is worth a thousand words."

Developing an effective interface between people and machines is also important to Canon's growth. Yamaji elaborates, "The key notion here is creating a comfortable office environment. You might ask how we go about that. Well, we do it, for example, through noiseless printers, electronic filing systems and the development of ferroelectric liquid crystal displays to prevent problems like excess eye fatigue."

The third aspect of Canon's basic management strategy is the interface between people and nature. "Two typical examples of what we do in this area," Yamaji says, "are the recycling of toner cartridges used in laser beam printers and personal copiers, and the development of solar cells as a form of clean energy. Since last June, we've collected over 600,000 cartridges. We pulverize them, and 95% of the basic material is used to make new cartridges at a plant in China. We are thinking of setting up a similar plant in the U.S." Not only does the company recycle the cartridges, it also donates $1 per cartridge to environmental conservation organizations in the U.S. and Canada.

Canon views globalization differently from other companies. "Most companies feel that simply building plants or R&D centers overseas is globalization," he explains, "but we feel a certain sensitivity is needed. For example, in our overseas joint ventures, we take a minority share of equity, even when our position is clearly strong enough to demand a

majority share. We also make a point of hiring host country managers and maximizing local content. That's our kind of sensitivity."

In its R&D activities, Canon also has a unique set of criteria for selecting what it will work on, and has formulated certain ethical guidelines. "We won't work on R&D for military purposes," Yamaji says, "nor in areas that might lead to environmental or ecological problems. Our interest is in new technology and new product categories, with the emphasis on originality, and we try to conduct specific R&D activities in host countries where the technologies or products fit best."

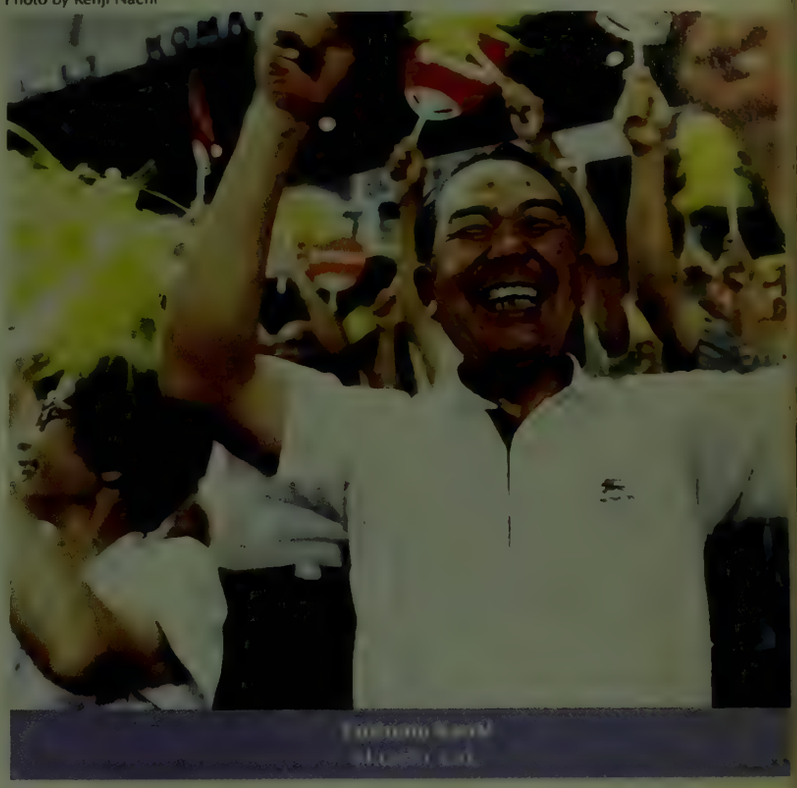
What Canon has done with its typewriter division is a fine example of its successful application of "sensitive" globalization, and shifting the R&D, production and marketing emphasis of particular products to particular host countries. "It dawned on us one day," Yamaji says, "that typewriters were a Western invention and Westerners were more familiar with them than the Japanese. So we moved all our typewriter operations to Los Angeles. We now export 30% of production to Europe, and even send 2% to Japan. Moving to Los Angeles was one of the smartest moves we ever made."

A robust man who likes to play golf, Yamaji attributes his good health to his resolve not to let anything bother him. "I do my best in every situation," he says, "and if things go wrong, I make careful note of the lesson learned."

HITACHI

President **Tsutomu Kanai** of **Hitachi, Ltd.** has only been in office since June 1991 and so is a relatively new face to the international business community. But as head of a company with over 300,000 employees and consolidated net sales of almost ¥8 trillion (about $60 billion), Kanai will become increasingly familiar. His candid manner and enlightened approach to corporate responsibility should stand him in good stead both at home and abroad.

Photo by Kenji Nachi



"Hitachi is such a large organization," Kanai says. "Our size really dominates all aspects of our business." An industrial giant, Hitachi has 742 consolidated subsidiaries, 189 of which are located overseas. The business embraces a remarkably diversified product range, including information systems and electronics, power and industrial systems, and a variety of consumer products. The Hitachi conglomerate regularly modifies its product mix in response to the current needs of consumers and society — the initiative behind the company's innovative technology.

Hitachi's scope and diversity account for its commitment to challenge. "It is easy for a large organization to stifle creativity," Kanai says, "but if a company stops being innovative, it stops growing. At the same time, risk accompanies creativity, and risk means possible failure. So I constantly remind everyone not to be afraid of challenging the unknown. I don't invite mistakes, but I tell my employees to dare to be creative."

Hitachi firmly emphasizes technological innovation and invests 6.3% of its net sales in R&D. The company considers this emphasis on technology the driving force behind its corporate progress, both in terms of competitiveness and growth. "The focus at Hitachi," asserts Kanai, "is on developing more sophisticated technology than our competitors — technology that ties to new products that are attractive, timely, and reasonably priced."

This strategy has served Hitachi well — so well that in 1990 the company celebrated its 80th anniversary with an exhibition that demonstrated many of Hitachi's recent technological achievements and products through practical applications in social, educational and scientific areas, such as in video and microelectronics technology.

And Hitachi is devoting particular attention to the energy sector. As part of the company's commitment to environmental protection, Hitachi research has given birth to a number of innovative technologies, including energy systems that improve fuel efficiency, and the refinement of CO_2 separation technologies to combat global warming.

Complementing this ongoing commitment to R&D is Hitachi's global outlook. Hitachi has production and marketing bases in the U.S., Europe and Asia. In order to expand overseas production and moderate imports, the company is shifting its focus, particularly in the U.S.,

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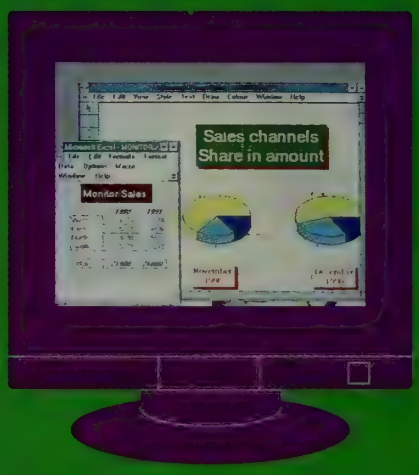

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Building a better monitor may not solve problems as universal as our disappearing ozone layer or rain forests. But for those sitting behind a screen during their working day, it's an effort every bit as important.

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where it has numerous manufacturing, sales and service operations.

"Years ago," says Kanai, "it was acceptable to site a plant in the U.S. and export materials to it from Japan. Today, our emphasis is on doing what benefits the American customer best, such as increasing local content and local participation in R&D and design. And that trend will continue. We're aiming eventually to have overseas production account for 50% of overseas sales.

"Production at plants such as the brand-new TV tube plant in Greenville, South Carolina, and the semiconductor plant in Dallas, Texas will help to offset Japan's trade imbalance with the U.S."

Furthering its global presence, Hitachi engages in a broad spectrum of nonprofit activities around the world. In 1985, the company set up the philanthropic Hitachi Foundation in the U.S. to fund cultural and educational projects both in local communities and at the national level. This foundation, along with six others created by Hitachi, supports an extensive range of cultural, scientific and educational programs. In addition, the company directly sponsors cultural activities of international stature.

Kanai sums up, "By dedicating ourselves to the communities and people where we operate all over the world, and by always striving to meet the future needs and concerns of society—this is how Hitachi can best be regarded as a responsible, enlightened corporate citizen."

MAZDA

Awareness of the global importance of environmental issues has increased, and as a responsible corporate citizen, **Mazda Motor Corporation** places particular emphasis on environmental considerations in its plants and in its products and technologies.

"A recent example of how Mazda responds to environmental concerns, says President **Norimasa Furuta,** "is the HR-X concept passenger car, displayed in the 29th Tokyo Motor Show in late 1991. The HR-X uses a hydrogen rotary engine that runs on non-polluting hydrogen fuel.

"The hydrogen car is an ideal type of non-polluting passenger car for urban commuting in the 21st century," according to Furuta. Hydrogen is a preferred alternative to fossil fuels for several reasons. For example, it produces no harmful emissions when burned and is available in an almost inexhaustible supply. "We believe," Furuta says, "hydrogen is certain to play a principal role as an alternative fuel in the next century. We are continuing our research into it, while also pursuing R&D into other promising alternative fuels.

"The rotary engine is better suited to hydrogen use than the reciprocating engine, giving Mazda a unique advantage," Furuta says. "Mazda is the only mass-producer of rotary engines in the world. The intake and combustion chambers of a rotary engine are separate, which means the hydrogen will not fire prematurely and cause backfiring during the intake process, as can occur in reciprocating engines.

"There are two main areas for further technical improvement," Furuta explains, "the absorption capacity of metal hydrides, for a smaller, lighter fuel tank, and greater combustion efficiency. The supporting infrastructure for hydrogen use must also be developed. Mazda is actively promoting R&D for practical application of hydrogen fuel in the 21st century."

The hydrogen-powered engine is just one expression of Mazda's theme for the future — "friendly to people, kind to the environment." Another is the Flexible Fuel Vehicle, which can run on blends of 0-85% methanol for maximum adaptability.

Two other areas of importance to Mazda are safety and recycling. "Safety is naturally a priority concern for automakers," Furuta says, "and we look at vehicle safety in comprehensive terms. We express that in our Safe Driving System (SDS)."

Still being developed, the SDS has navigation, cruise control, hazard warning and emergency backup functions. "Our idea," Furuta explains, "is to have the SDS assist the driver and enhance the driving experience, rather than take control of the vehicle."

The SDS uses two side-mounted cameras that focus mainly on objects in front and a third camera that focuses on the road's center line. It also uses a laser radar that monitors the car's distance from objects before it. An antenna, meanwhile, receives traffic information from a vehicle information and communication system (VICS) center. The system also includes a

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The third area of importance to Mazda is recycling. About 75% of a car's weight is in recyclable materials, including steel and aluminum, and the remaining 25% is largely plastics. "The recycling of plastics is one of Mazda's main concerns," Furuta says. "Besides increasing the use of easily recyclable thermoplastics for bumpers, rear spoilers and other large parts, we are studying recycling technologies and logistics through two pilot reclamation and reprocessing programs, one each in Germany and Japan, where we test collection, reprocessing and recycling systems for large plastic parts."

Effective recycling does not depend solely on collection and reprocessing. "Our approach to recycling must be comprehensive," Furuta says. "In design, for example, we used to have metallic stays built into our bumpers, which had to be removed before we could recycle the plastic. Now we use plastic stays, simplifying the recycling process.

"Alternative fuels, clean engines, safety and recycling," Furuta says, "are links in Mazda's overall chain of efforts to integrate the automobile harmoniously into the pattern of society and the environment."

C. ITOH

"Too many times," says President **Minoru Murofushi** of **C. Itoh & Co., Ltd.**, "the problems between Japan and the U.S. derive from misunderstandings, rather than absolute differences in their respective positions." He is convinced that the best way to improve Japan-U.S. relations is through ongoing, frank dialogue.

The approaching Uruguay Round is an especially important set of GATT negotiations for Japan. To everyone he meets, Murofushi emphasizes that Japan should take the initiative. "Prime Minister Miyazawa speaks excellent English and has considerable experience in politics and business," he says. "His presence on the international scene should help prevent the type of unfortunate misunderstandings that have plagued Japan-U.S. talks in the past."

Murofushi's favorite saying is, "Nothing is impossible." He learned through personal experience that when a person is confronted with a seemingly impossible challenge, it is possible — by hard work — to overcome it. He cites an example in the early 1970s when C. Itoh proposed a tie-up between General Motors and Isuzu Motors. "The GM chairman couldn't see the advantages in the proposal for his company. Although I felt the situation was hopeless, I was convinced that both companies would benefit from a tie-up, so I spent the rest of the year trying to convince GM. Imagine my delight when GM acquired a 34.2% equity stake in Isuzu in July 1971!"

Murofushi's first stay in the U.S. with C. Itoh lasted from 1963 to 1972. During this time, he felt that Japan and the U.S. had a teacher/student or father/son relationship, in which the U.S. was all-powerful. "When I returned to the U.S. in 1986 as president of C. Itoh America," he notes, "I felt this relationship had changed. Japan and the U.S. were almost like brothers, with the U.S. being slightly older. We had become more equal.

"When Japanese companies first started doing business in the U.S.," he recalls, "Americans didn't take them seriously, so they weren't expected to be responsible for their activities in the community. Today, however, the U.S. demands that Japanese companies behave like responsible corporate citizens, and the companies themselves are much more aware of their obligations."

"The Japan-U.S. partnership has reached a high stage of maturity. It is a natural development, and it comes at a vital time."

How is C. Itoh, with over 800

group companies worldwide, adapting to these changes in the international business environment? "That is precisely the objective of our Global 93 medium-term plan," says Murofushi. "We aim to transcend the limitations of the traditional trading company with global distribution of managerial resources — for example, by giving greater authority to top management overseas. We are also one of the very first Japanese companies to formally adopt English as our second official language. Our ultimate goal is to reach the 21st century as a globally integrated corporation, while emphasizing high value-added business."

MITSUBISHI MOTORS

President **Hirokazu Nakamura** of **Mitsubishi Motors Corporation (MMC)** is a maverick when it comes to alternative fuels for automobiles. Although most leading automakers talk about the depletion

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of the earth's oil resources in 30 or 40 years and the urgent need to develop new types of engines and alternative fuels, Nakamura takes the opposite view.

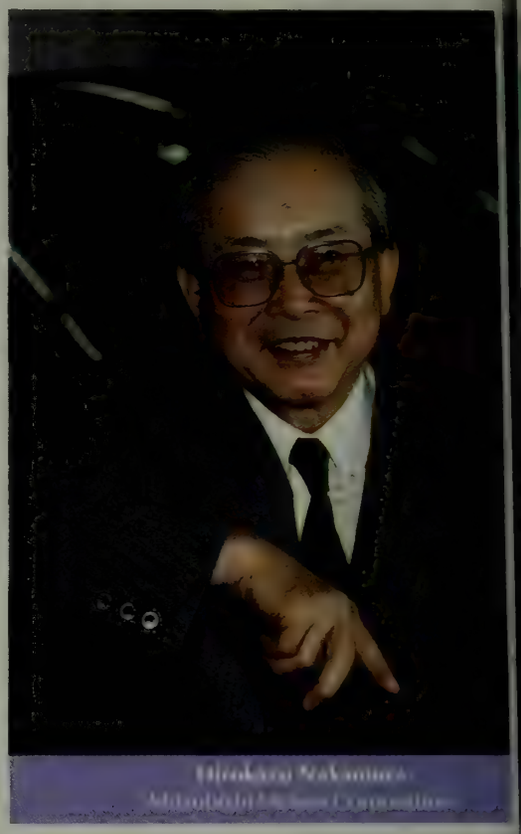
"I agree with those who say there are sufficient oil resources to carry us through the entire 21st century, even at current consumption levels," he says. "And if we devise ways to conserve energy and reduce fuel consumption, I think our resources will last even longer."

Nakamura believes there are many others in the auto industry who share his optimistic view. "But," he says, "people don't come out and say so directly. They think it's more important to stress the R&D a company is doing on non-gasoline engines and alternative fuels. Certainly, we'll have to think more seriously in the future about alternative engines and fuels, but this is not the best time to discard the existing infrastructure based on diesel and gasoline engines.

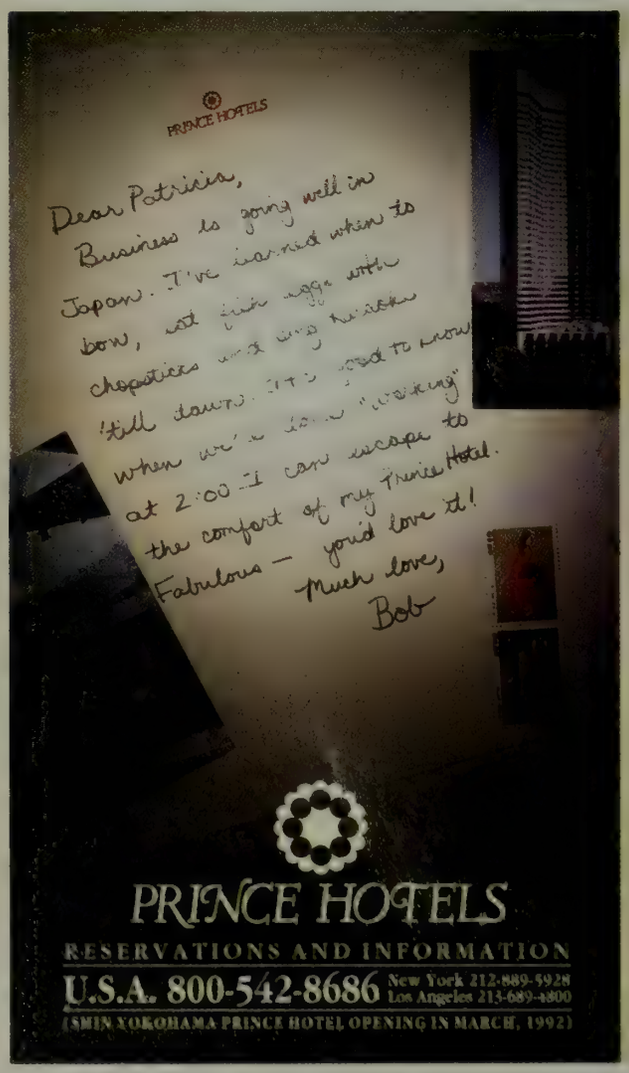
"Anyway," Nakamura says, "our principal interest regarding engines is to promote further development of our current gasoline engines, and make them cleaner and more fuel-efficient. The latest result of our efforts is the MVV 1500cc four-cylinder engine that incorporates vertical vortex and lean-burn combustion technology. We mounted this engine in the new Mirage/Lancer we marketed in Japan last October. It provides fuel economy in city driving equivalent to that of diesel engines, which is quite good. We will continue developing this type of engine as an alternative to the conventional diesel engine."

Safety is another important concern for MMC. "There are two kinds of safety features for motor vehicles," Nakamura explains, "active and passive. The former refers to features that help avoid accidents; the latter refers to features that help reduce the damage if an accident occurs."

MMC introduced special safety features in an advanced experimental vehicle, the HSR-III, displayed at the Tokyo Motor Show last October. "The HSR-III expresses our thinking about what a car should be like when we emphasize the driver," Nakamura says. "We already use 'all-wheel control,' for example, in some of our cars, and the HSR-III takes that thinking a step further. All-wheel control gives a car outstanding mobility even as it heightens its ability to avoid accidents. Also, a safety mechanism shifts the car into auto control and assumes the driving functions, if necessary, when the driving burden is greatest on the driver.



"One of the innovative safety approaches we're considering," says Nakamura, "is using lever-type controls on the steering wheel to replace the accelerator and brake pedals. In medical terms, the hand responds faster than the foot to instructions



from the human brain, and hand-operated levers will thus improve the chances of avoiding an accident. Also, using lever-type controls on the steering wheel for the accelerator and brake pedals will enable persons with leg handicaps to operate the vehicle. The HSR-III adopts this concept."

NOMURA

Japan's securities industry is currently undergoing extensive reform in a very rapid and positive fashion. Taking the "in-house" lead in reforming the industry is **Nomura Securities Co.**, the largest securities house in the world. At the end of last July, Nomura urged Honorary Chairman **Yukio Aida**, a 44-year company veteran, to end his brief period of retirement and lead the company's own renovation efforts.

Translating a regard for individual citizens into specific action to reform Nomura's organizational structure is an area that absorbs much of Aida's thinking. "It will continue to take much time and great effort," he notes, "but mostly I want to offset quantity with quality, by which I mean human quality. Up to now, there's been too much emphasis on quantity, on making money. We were preoccupied with volume: the more the better."

Aida's comment about volume is buttressed by the fact that the stock market in Tokyo is now as large as, or larger than, those in New York, London and other major financial centers. Future emphasis on quality is certain to impose on Nomura abrupt short-term changes that will affect the rest of the industry.

"In the long run," Aida says, "Nomura will be a better-respected,

truly globalized securities house. It will be known as a company that cares about the human aspect of the

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securities business, and will win greater international trust. Each of its employees will try to understand the host communities where they work and fit in as good citizens, whether in Japan or overseas."

None of this implies that it is improper for a company to be profitable, but fairness and honesty come first. "In the international marketplace there is no room for arrogance or deception. Japanese companies doing business overseas must be fair and open with their customers."

Aida believes that eventually the meaning of "market" will change. "There are no particular markets anymore. The U.S. market is actually a New York-based international market, and Japan's is a Tokyo-based international market. That's what the world has come to. But no matter what currency we discuss, when the subject is international markets, the primary trading currency is still the American dollar."

As world markets merge, it is crucial for participants to abide by the rules of the international financial community. Aida has been keenly aware of this ever since he first went to the U.S. in 1958. He is well known for his extensive overseas contacts, which he will use to full advantage. "My main role," he says "is to act as the interface between the 'New Nomura' and the outside world."

BROTHER

Brother Industries, Ltd. is very active in international sports, and this is a source of some pride for Brother employees in the U.S. and worldwide. Says President **Yoshihiro Yasui**, "Brother was established through the joint efforts of my father, his five brothers and four sisters. So the notion of 'brotherhood' — the very essence of the Olympic spirit—has particular significance for us."

Brother became an official sponsor of the Olympic Games in 1984 and recently signed for sponsorship of the 1992 Games. The company is one of only three Japanese corporate sponsors, and supports the Olympic movement by supplying 2,500 typewriters to the games.

In the lobby of Brother's head office in Nagoya, there is a glass case displaying the pure silver, two-foot-high "Brother Cup." This is awarded to the winner of the International Rhythmic Sportive Gymnastics Competition held in Japan every May. Top athletes from 20 countries participate in the tournament, which is designated as a World Cup qualifier. The Brother Cup is very much a symbol of the "brotherhood of sports."

Yasui himself is a keen sports fan. "As far as participating goes," he says, "I like skiing and water skiing. I also used to wind-surf, but it's too strenuous for me now." He prefers team activity, however, when it comes to spectator sports. His favorite is rugby, and he is vice chairman of the Aichi Prefecture Rugby Association.

Sports is not the only area in which Brother contributes to the international community. As part of its globalization policy, the company supports education and the arts throughout the world. Brother's backing of the Hallé Orchestra, based in Manchester, England, is among the largest single sponsorships ever given to an orchestra in the U.K. The company also supports "The International Contest For Young Fashion Creators." Many of the world's most talented young designers have their international debut at this event, held in Paris.

In the U.S., where Brother began production in 1987, the company is committed to supporting education. In 1989, Brother announced it would underwrite a national education program with the Smithsonian Institute. As the first corporate sponsor for the Smithsonian's Office of Elementary and Secondary Education, Brother supplied curriculum kits to students at 5,000 high schools.

Yasui also emphasizes an international orientation in business. Brother currently has production facilities in eight countries, including Japan, and sales subsidiaries in 19 countries. "In order to establish prompt and stable supply of products and help ease trade friction, we have expanded our overseas production in recent years," notes Yasui. "Recently, our overseas production ratio has reached the 20% mark.

"The days are long gone when Japanese companies could produce hardware, export it to, say, the U.S., sell it, and then forget about it." A clear expression of that statement is the $10 million Brother Training

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Center, currently under construction near Brother's head office. "The new center will be a medium for transferring production technology and managerial expertise to our overseas dealers and industrial customers," Yasui says. "In the apparel machinery industry — one of our main areas of business — production systems are becoming more integrated, and machines increasingly sophisticated and complex. So we bring our overseas employees to our headquarters for special training. It may cost us something initially, but in the long run we will benefit in business terms and in goodwill — a growth in 'brotherhood,' if you like."

MITSUBISHI ELECTRIC

Mitsubishi Electric Corporation is one of Japan's most popular all-round electronics equipment and systems makers. With subsidiaries and affiliates in 32 countries, the company has 97,000 employees and manufactures thousands of products. Its operations include space development, semiconductors, communications and information-processing systems, AV equipment, home electronics, energy, industrial equipment and transportation systems. Mitsubishi Electric projects consolidated sales for 1992 of ¥3,400 billion (approximately $26.2 billion).

President **Moriya Shiki**, known for his outspoken manner and the human touch he brings to management, says, "I want us to maintain the image we have built up over the years of being a friendly, accessible company." Mitsubishi Electric's business activities reflect this "friendliness" on many levels, such as demonstrating a willingness to cooperate with other companies and investing overseas. Two recent agreements with U.S. companies emphasize such cooperation.

"Last May," Shiki explains, "Mitsubishi Electric and Hewlett-Packard (HP) agreed to run HP's UNIX system on Mitsubishi Electric's new RISC series of workstations and servers. We have recognized the growing demand in the market for distributed processing and multiprocessing technology, and decided that HP's HP-UX would be the most appropriate form of UNIX.

"In early October," he continues, "we established a long-term relationship with AT&T to develop high-performance gallium-arsenide integrated circuits for non-military use. One application of these ICs is in devices that will make cellular telephones lighter and prolong battery life."

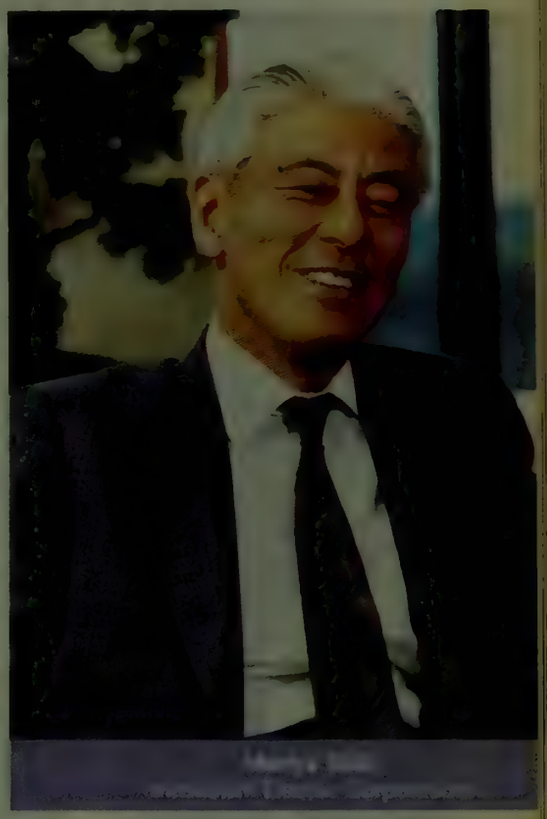
Mitsubishi Electric takes international cooperation seriously: In April 1991, the company founded the International Collaboration Development Office to better coordinate joint international activities.

"But not all our overseas investments are joint ventures," Shiki says. "We will open a plant in Germany in early 1992 for producing 4-megabit DRAMs and other advanced ICs. In Thailand, we are building a plant for manufacturing elevators and escalators, slated to open in mid-1992. These two plants will each create some 500 job opportunities.

"One of my mottoes is 'Bear small, and grow large,'" Shiki says. "Fit in as a local citizen first, and then consider wider spheres of corporate activities."

A recent philanthropic development in the U.S. was the establishment of the Mitsubishi Electric America Foundation. "Interest earned from our initial endowment of $15 million," Shiki says, "is allowing grants to be made in the important social areas of rehabilitation, education and vocational training of handicapped children and young adults.

"Our philosophy is the same throughout the world," Shiki says.



"We want to provide quality products that meet the needs of the marketplace, and we want to create job opportunities as a way to contribute to the local community. One of our most important assets is the trust and confidence placed in us by our customers and other people in our regional communities."

OKURA

To the guest entering the **Hotel Okura**, one of the first impressions is of traditional Japanese hospitality. "Our guests frequently comment how much they enjoy the very Japanese atmosphere of the hotel," says Managing Director **Goro Yamazaki**. "They also appreciate our efforts to blend traditional style with the convenience of ultramodern facilities. Our Executive Service Salon, Health Club and other amenities are unparalleled."

The hotel also trains its multinational staff to provide the best service to guests. "We emphasize

Continued on S-29

Human Equality, Cultural Understanding, And Business

Yoshio Maruta
Chairman, Kao Corporation

Chairman Yoshio Maruta was born in Nagano City, Japan in 1914. In 1935 he joined Kao Corporation, then known as Kao Soap Co., Ltd. He has been heading Kao's operations since he became president in 1971. Kao Corporation has distinguished itself by providing consistent quality and service to its customers for over 100 years.

kao

Chairman Yoshio Maruta of Kao Corporation is a foremost leader in Japanese business circles. Globally minded, Dr. Maruta is especially well known for his outspoken criticism of Japan's unclear international stance. After graduating from Kiryu Technical College in 1935 with a major in applied chemistry, Maruta joined Kao Soap Company, the forerunner of Kao Corporation. While still at Kao, Maruta returned to school and in 1948 earned a doctorate from the University of Kyoto. He learned about the importance of creative research at university, but it was after becoming president of Kao Corporation in 1971, a post he subsequently held for 19 years, that he learned his most important lessons about human beings and values in life, lessons he strives assiduously today to transmit to others.

Q: How do you view the dissolution and democratization of the Soviet Union?

A: I welcome those developments unconditionally. Two particularly clear points are, first, that President Gorbachov not only led the dissolution of the Soviet Union, but also made it possible to create a new Soviet Union, and second, the U.S., as a representative of the West, made a great contribution to that end, and in the process became the world's most powerful nation, not only in name, but in substance.

Also, I think the foresight of presidents Reagan and Bush, and their determination not to compromise, contributed much to the success of the talks to reduce nuclear arms. I cannot help having great respect for the United States for the tremendous contribution it is making in realizing world peace and maintaining a stable world order.

In Japan, meanwhile, many members of the intelligentsia still embrace Marxism and Leninism, and they have exerted a strong negative influence on education and the mass media. Now that Marxism and Leninism have been proven to be unreliable, I think there should be a widespread move to correct such thinking.

Q: What do you think is Japan's role in the international community?

A: As you know, restrictions built clearly into its constitution prevented Japan from providing military assistance to the

coalition forces after war erupted in the Persian Gulf early last January. In my opinion, Japan should adopt a system—including, if necessary, constitutional reform—that will allow it in the future to respond expeditiously to similar calls for cooperation to maintain international order. Also, I think Japan's current generation of business and government leaders have been concerned for so long with internal affairs that they are almost totally ignorant of the importance of external considerations. There are things that Japan can do. In order to defend the cause of free trade from a global perspective, for example, it can take the initiative to help resolve conflicts related to GATT and the Uruguay Round of trade talks. Certainly, the introduction of protectionist measures is not the best way to resolve agricultural problems. Even without such protection, Japan's farmers are capable of responding sufficiently to international competition, and I think leaving the matter to free market mechanisms will bring about much better results.

Q: Kao Corporation is known especially for its household and personal care products. Can you tell us more about your company?

A: Rather than a company, Kao today is a group that operates across a spectrum of related fields. We've expanded and diversified, moving into areas such as food products and fatty and specialty chemicals, and applying our expertise in surface science and polymer chemistry to developing durable floppy disks. We also produce digital audio tapes and heat-sensitive paper for facsimiles and word processors.

Kao aims to serve consumers around the world by providing innovative products developed using breakthrough technology. Rather than winning out in competition with other companies or increasing its market share, Kao's primary corporate objective is to provide quality services and products to its customers.

Q: Kao places a good deal of emphasis on R&D. What is your approach to R&D?

A: Among Japanese corporations Kao is unique for the paramount importance it places on R&D. For example, about 28% of our overall work force of 7,500 is engaged in R&D. Our aim is to create original, user-friendly, high-quality products through interdisciplinary research, and we are constantly striving to develop breakthrough technology.

Q: Your personal philosophy about human beings being equal is unique for a businessman. Would you explain that philosophy and how you apply it to business?

A: When I suddenly became president a little over 20 years ago I was not fully prepared for my duties. In my search for guidance, I began practicing Zen meditation and reading philosophy books. And finally I was introduced to the teachings of Japan's Prince Shotoku and those of the Zen priest Dogen.

The central idea in Prince Shotoku's teachings is that there is one, and only one, universal truth: human beings are unconditionally equal. I gradually understood the significance of that universal truth, and I have tried to keep Kao Corporation competitive in business while managing it according to the principles of Prince Shotoku.

Dogen, too, is more a man of philosophy than of religion. He taught that man's subjective perception tends to blind him to the natural order of the universe. He says we should concentrate totally on perfecting the task at hand and doing so will lead to an understanding of the truth. As you can see, this idea is immediately applicable to business, because an understanding of the truth Dogen wrote about leads not only to spiritual enlightenment but also to creativity and innovation, two essential ingredients for corporate success through service to consumers in the contemporary economic situation.

Q: What basic corporate philosophy guides Kao in its everyday operations?

A: Besides an emphasis on cleanliness of body and mind, every aspect of our business operations must reflect the absolute equality and dignity of all human beings. Having said that, we know that human beings are vulnerable, and therefore those in higher positions must lead those in lower positions in the direction of truth. One specific way we practice this philosophy is by sharing information resources at all work levels. In that sense, Kao's organization doesn't fit the familiar pyramid structure, because subordinates have access to the same information as managers. We also emphasize the need for dialogue and discussion, horizontally as well as vertically, which helps to integrate and unify our operations. This egalitarian approach to our employees, suppliers, and customers has made us into a closely knit group.

Q: What degree of importance does Kao place on automation and computers?

A: Computers and communications networks have developed tremendously and become less expensive. Using them, I think it is important to turn corporations into structures that systematize information flows and allow all employees to develop their creativity to the greatest degree possible. At Kao, we let computers handle as much noncreative work as possible, allowing our employees to concentrate on creative work.

We also have our staff write our own software. In order to train computer technicians and other employees to be creative, Kao has invested ¥15 billion (about $115 million) in training and education facilities. The results of these activities will benefit consumers around the world 10-20 years from now.

Q: What is Kao Corporation doing in the area of environmental protection?

A: Kao is very active in protecting the environment. For example, Kao has moved faster than other companies in developing more compact products, and in switching from plastic to cardboard containers, both of which conserve energy. Kao today uses 40% less energy in its overall operations than it did at the time of the first oil crisis in 1973.

Also, Kao has a 70% share of the Japanese market for de-inking agents, cleaning agents used when processing old paper for recycling. In the United States, the percentage of old paper being recycled is much lower than in Japan, but Kao began producing de-inking agents in the U.S. in early 1991, thereby contributing to more effective use of natural resources.

Q: In conclusion, do you have any special message for the people of the United States?

A: Japan's contemporary prosperity began in the postwar years with tremendous aid from the United States, which made our country's miraculous recovery possible. Personally, I was afforded the opportunity at that time, in the context of American support to develop Japan's scientific and technological research, to visit a number of American universities and research centers. The tremendous potential of the United States, the world's leader at the time, overwhelmed me.

The message I have for Americans is the same as it is for Japanese. Both must understand that respect for human dignity is more important than making a profit in business. We must try to understand each other's culture better. We are all human beings, and if we think creatively together I am convinced we can overcome whatever national or cultural barriers block the way to mutual understanding. It will not be easy, but the result will be worth the effort.

Kao Corporation

How To Succeed In Japan's Tough But Rewarding Market

BILL TOTTEN (left), WILLIAM R. FARRELL (right)

For IBM, Proctor & Gamble and many other U.S. corporations, Japan is a $1 billion a year market. Two Tokyo-based Japan hands discuss the formula of success in the world's second largest—and perhaps the most dynamic—market. The key ingredient: a lasting commitment to the market.

As American Businessmen Working In Japan, How Do You Look At The Current U.S.–Japan Economic Relations From The Other Side Of The Pacific Ocean?

FARRELL: Our economic relations are closely linked to our political relations and both are terribly complex. To say these relations are good or bad is a simplification. I would venture to say that ours is a relationship that needs tending and care by both sides. Nearly 50 years after the war, the U.S. and Japan still have a lot more to learn about and from each other.

TOTTEN: I'd say there's actually no trade problem whatsoever between our two countries, if you look at valid statistics. The Japanese buy just as much from us as they sell to us. Japan has only half our population, so per capita they're buying twice as much from us as they are selling to us. For instance, they are our farmers' best customers, buying 20 percent of our agricultural exports and 70 percent of our beef exports every year.

FARRELL: I think there's a lot more to the answer about the trade friction. Quite frankly, the American economy is having difficulties. There are people who take Japan as a convenient target, but I think it's much more symptomatic of the existing economic problems: because many Americans today actually see a contraction of their wallets and feel threatened and uneasy.

What About The Current Dispute Over The Export Of American Rice To The Japanese Market?

TOTTEN: We never mention that Japanese are our farmers' best customers, and all we do is harp on the one-percent they don't buy.

FARRELL: The rice issue seems an unnecessary distractor that is getting too much attention. There are many other, much more complicated problems that need to be addressed. Certainly, our agricultural sales to Japan are enormous. But the worrisome part is the nature of our trade relationship and the type of products going back and forth between the U.S. and Japan, and basically trying to balance the trade on our raw materials and their manufactured goods. What does that mean for the future of the U.S.?

TOTTEN: That's an excellent point. I'm afraid we are shooting ourselves. For instance, we're falling behind in computers because we don't have an active television industry any longer. This makes it virtually impossible to make the screens that go on computers. We can't make a lot of other things that we could if we had a strong TV industry. I'm not defending Japan because Japan has a lot of problems of its own, but I'm worried about my fellow American citizens. We should be concentrating on what's happening in our own country instead of blaming it on the Japanese and deflecting attention to Japan.

More Than A Few People In The U.S. Have Criticized Japan For Maintaining A "Closed Market" Policy. From Your Own Experience, How Credible Is Such A Perception?

TOTTEN: I came to Japan 19 years ago and started my computer software company with $25,000 borrowed from five persons. Today, it's a $140 million company with 717 employees. I just can't see from my own experience how this market is a closed market.

FARRELL: The Japanese market has been opening up over the past few years, but there still is the perception that Japan is a very closed market. The biggest impediment for U.S. trade in Japan right now, however, is not "government regulation" but the high cost. In a time when resources are constricted, the price of doing business in Japan has become extremely high, including land, labor, and materials.

Obviously, A Good Number Of American Companies Are Successful In Japan. Could You Discuss Why You Think They Are Doing Well?

FARRELL: As you know, a lot of American companies are doing very well in Japan—Motorola, Digital Japan, IBM, Kodak, just to mention a few. In order to be successful in Japan, American companies have to recognize that their customers are Japanese and that certain adaptations

f products and ideas are definitely equired because the Japanese are very ough customers. All the successful merican companies in Japan are those illing to adapt themselves to the local nvironment and also having the capital o do that

OTTEN: Last year in Japan, Proctor and Gamble did a billion dollars' worth of usiness. IBM sold more than a billion ollars' worth of computers. I think, owever, that U.S. business and Japanese usiness are fundamentally different in erms of the purpose of business. Putting t simply, an American company is run o enrich the stockholders by producing hort-term profits, while a Japanese company emphasizes the employees' welfare hrough life-time employment and seeks ong-term profits. P&G and IBM are among those American companies in Japan that have come to grips with the need to adapt themselves very well.

BILL TOTTEN

FARRELL: I agree. The successful American companies have all adapted themselves to the Japanese market well. That requires preparation and patience. They have played by the market rules that are prevalent in Japan.

So You Think The Japanese Market Isn't As Unique As Some People Think?

FARRELL: I don't think Japan is that unique, or peculiar. Japan is a "Japanese" market with Japanese customers, so you have to sell to their wants and needs. Japan's "uniqueness" has been perpetuated by both sides far too much. There should be more Japanese speaking directly to the American people—not through U.S. PR firms—to provide a better picture of Japan.

TOTTEN: I think that there is a lot of problems and misunderstandings between America and Japan, which has been brought upon by a lack of smooth communication between our two nations. While I believe more Americans ought to learn to speak the Japanese language when doing business in Japan, the Japanese should make greater efforts to sell their views to the American citizen. If Japanese private business can sell itself so well in the U.S., why can't the government sell itself in the U.S.?

FARRELL: A frustrating thing is the scenario that people have to talk about the U.S.–Japan relationship in military terms—such as, "the coming war with Japan." It's a marketing tool that makes books sell. If you want to talk about the U.S.–Japan relationship in an adversarial sense, let's bring it down to a sports analogy, because what we have is a fairly intensive economic competition—not war. And, if we lose one game, it's incumbent upon us to go back and practice hard and come back and win the next game. In that sense, we are a stimulus to both sides.

TOTTEN: I can't agree with you more. In business, you never obliterate your opponent. You always need your opponent to stimulate you to better quality, productivity, and service. And, if the purpose of a business is to serve a customer, then more competitors give the customer better freedom of choice.

Isn't "Keiretsu" Construed As A Typical Example Of The Peculiarity Of The Japanese Market?

FARRELL: My feeling is that "KEIRETSU" —which is a term to simply describe corporate affiliations—is a very simple word that's greatly misunderstood. There are some positive aspects in terms of corporate relationships, dealing within a group, and forming strong alliances. The part that most of us would criticize is the exclusionary aspect of it. This is a serious problem, and I think the term is very poorly understood outside Japan. People talk so much about Keiretsu and human relations as if Japan had a monopoly on human relations, but that's also very true in the States.

TOTTEN: I think if somebody says you should always buy a product at the cheapest price, and not consider the trust or the past relationship with the supplier, it's very simple-minded way of doing business. I don't know anyone that does business that way.

FARRELL: The whole concept of Keiretsu is much more complex than most Westerners will allow. It's important to understand it and I think in some respects that success in the Japanese market is getting into somebody's Keiretsu. This applies to Japanese companies also who seek to enter a new market area in Japan.

WILLIAM R. FARRELL

What Advice Would You Give A Newcomer To The Japanese Market?

FARRELL: Do your homework, which is part of understanding the market. First, know what your product is, who your competition is, where you want to sell it, by understanding that the customer's perception of your product and how it is viewed is going to be different in Japan. Secondly, be prepared not to be satisfied with your current product, but always think about the next generation and the following generation. In other words, you need an intellectual commitment to do business in Japan, not just the product you want to sell.

TOTTEN: Also realize that good American companies are very successful in Japan. You have to come understanding that Japan is the world's second largest market, very dynamic and very lucrative. I would go to talk to the IBMs, the McDonalds, the Proctor and Gambles, the Max Factors, and the American Family Life Insurances —somebody that's in your field and find out why they're so successful.

BILL TOTTEN: Born in Long Beach, California, in 1941. President of K.K. Ashisuto (established in 1972), a Tokyo-based group of companies that distributes computer software packages.

WILLIAM R. FARRELL: Born in Bronx N.Y., in 1944. Executive Director since May 1990 of the American Chamber of Commerce in Japan comprising 650 U.S. corporations doing business in Japan.

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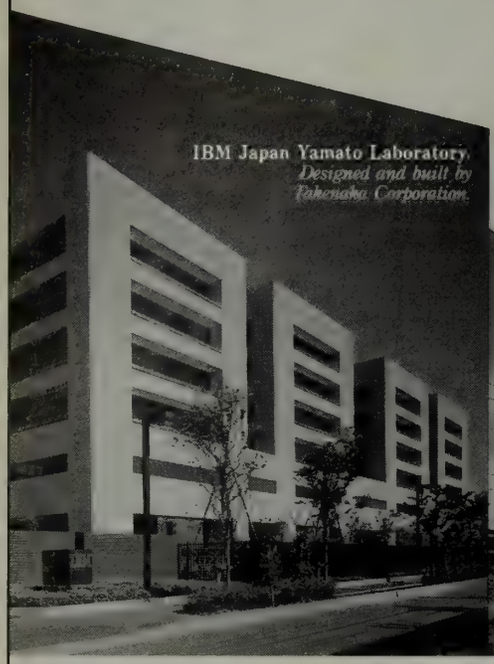

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Eastman Kodak (Japan) R&D Center.
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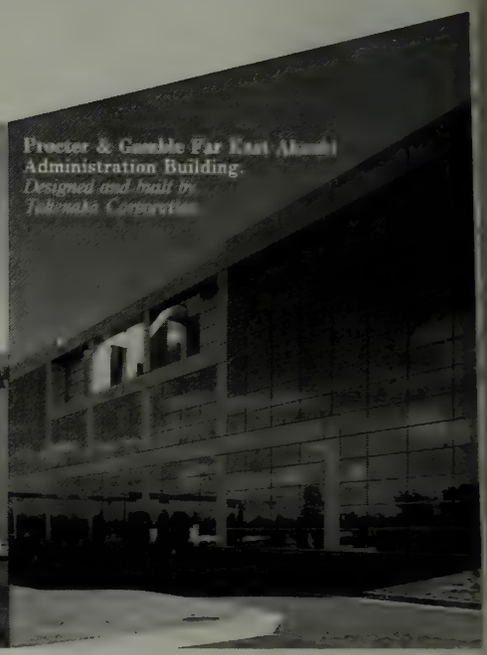

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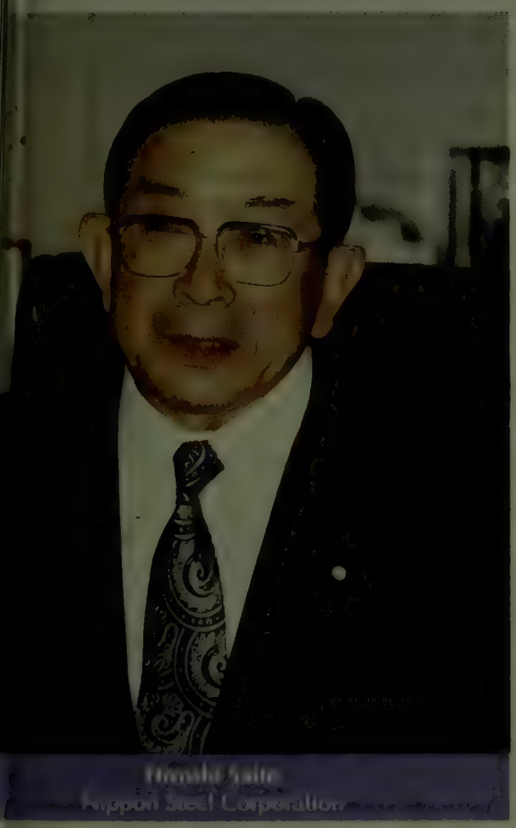
Continued from S-23

excellence in accommodation, cuisine and service," Yamazaki explains, "and we back that up with superior personnel. Within the international Hotel Okura chain there is an active staff exchange program that enables each employee to upgrade his standard of service."

The company is also considering building two new hotels in Japan. "Growth to us," Yamazaki notes, "means providing our guests with the same high-quality accommodation of the Hotel Okura in new locations."

NIPPON STEEL

President **Hiroshi Saito** of **Nippon Steel Corporation**, the world's largest steelmaker, says his company's



Hiroshi Saito
Nippon Steel Corporation

new medium-term business plan — supported by a "multiple-business strategy" — projects total sales of ¥3.5 trillion (about $26.4 billion) by the end of March 1993.

"Although our new plan calls for diversification," Saito says, "our new business ventures all tie in with steel. When the new plan is completed, steelmaking operations will account for 64% of total sales, compared with the present 75%."

The principal non-steel areas are chemicals, engineering and construction, electronics and information/communications, and new materials. Together, they represent a bold expansion in the scope of the company's business. In 1987, the company's articles of incorporation were changed to cover these and other new business ventures for multiple-business management.

The technology of system integration was one of the assets that justified the move into new business areas. "Steel manufacturing is a complicated technology," Saito says, "that requires a great deal of hardware and software. In the process of developing that software for areas such as production control at our 10 steelworks, we ended up with about 3,000 in-house software specialists. We have four software companies now and are marketing our software for use by other companies."

It is generally agreed that steelmaking-related software is more advanced in Japan than in the U.S. And for Nippon Steel, writing its own software led naturally to the development of hardware as well, such as the ultra-light Librex brand notebook personal computers now being sold in the U.S. and the U.K.

Saito comments, "Our company is very active overseas, especially in the U.S. Two of our noteworthy U.S. investments are joint ventures with Inland Steel Industries — I/N Tek and I/N Kote — both located in New Carlisle, Indiana." Nippon Steel provided 40% of the $195 million capital of I/N Tek (established to produce cold-rolled steel sheets) and 50% of the $120 million capital of I/N Kote for production of hot-dip and electrogalvanized steel sheets.

"The match between Inland Steel and Nippon Steel is perfect," Saito says. "The joint ventures with Inland Steel directly provide about 500 new job opportunities in the New Carlisle area and indirectly lead to countless more."

Saito stresses the importance of companies in the steel industry developing new technology. In order to consolidate its R&D and engineering efforts, Nippon Steel opened a new Research & Engineering (R&E) Center in November 1991 in Futtsu, east of Tokyo. "Our Futtsu R&E Center is the largest in the world for a steel company," Saito explains proudly. "It will eventually have about 1,200 full-time researchers and staff. With so many researchers working in close proximity to each other, we hope the horizontal liaison between them will create a more stimulating research environment."

Nippon Steel also introduced a system that gives researchers appointed as "Fellows" a status equal to director. Notes Saito, "We believe that by recognizing the achievements of researchers in such ways, we will continue to attract qualified technical people."

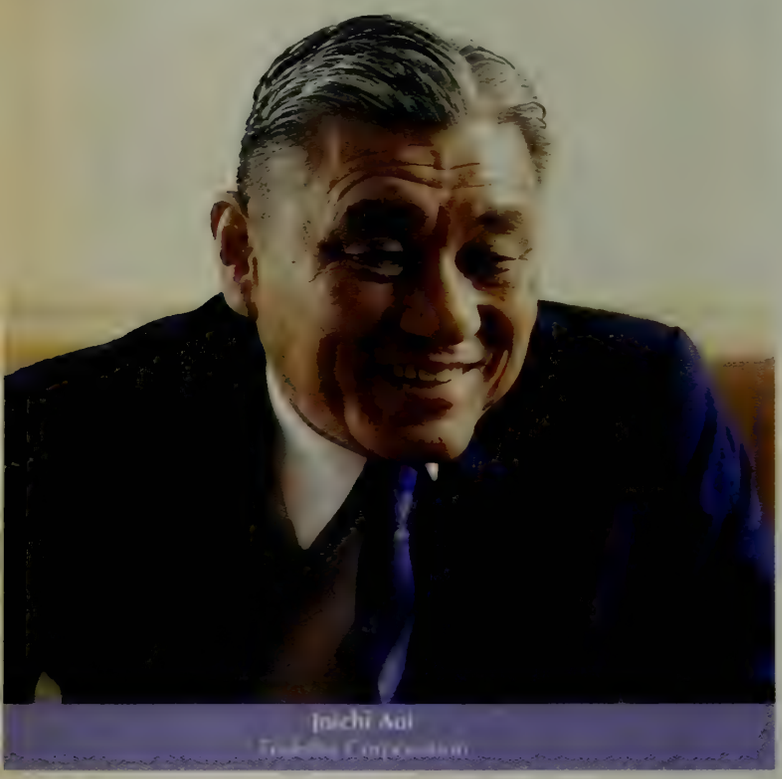
TOSHIBA

Looking ahead to the future, President and CEO of **Toshiba Corporation Joichi Aoi** observes, "Our basic thinking on the direction world society will take in this decade and the beginning of the 21st century has not altered, but the markets we are aiming to develop are going through a tough time." As a result, he adds, Toshiba needs to learn to be more agile in its response to a new business environment.

Toshiba's business strategies are exemplified by projects I and W. Project I deals with information/communications, Project W with semiconductors. Both are company-wide programs to strengthen capabilities in key business areas. Says

Aoi, "There has been no qualitative change in the goals we set ourselves under those projects. The business environment has grown more severe and competition has intensified, and this has had an effect on our targeted areas, but we are still confident of long-term growth."

Toshiba adopts a globalized approach to its international operations as it expands in the markets of North America, Europe and Asia. At the same time, whenever the company sets up a new plant or office overseas it makes every effort to ensure complete integration with the local community. "We think of companies as constructive members of society in general," notes Aoi. "Overseas, that also means being constructive members of the local community."



Jaichi Aoi
Toshiba Corporation

Aoi goes on to observe, "A company goes to a foreign country because there's a market there — the need for a product or a service. Some people show concern about the source of investment capital itself, which country it comes from. What matters more is the added value it creates for the community and the regional economy."

Toshiba is constantly involved in developing new products and technologies. "We have enjoyed success with laptop and notebook computers," Aoi says. "But we still have targets to reach — improved displays, higher integration of memories, improved batteries." Along with technology, Toshiba is also increasingly concerned with environmental protection. The company is reducing the use of chlorofluorocarbons (CFCs) and has introduced a range of CFC-substitute cleaning agents. Says Aoi, "It is a fundamental responsibility of industry to put a stop to pollution. Manufacturers need to respect the environment, or we will be rightly criticized and not allowed to manufacture anything!"

With his expertise in power supply technology, Aoi is also interested in conservation. "We need to use energy more efficiently," he says. "I see that as starting with power generation, and I would like Toshiba to lead the way in improving power generating efficiency."

Although primarily a businessman, Aoi has a poet's sensibilities. His interest in tanka — 31-syllable poems — is well known, more so than his forays into haiku, the most popular form of Japanese poetry. "When I travel I keep a sort of private diary and sometimes find myself writing haiku. It's not great work, just simple words and combinations." He recalls a visit to a GE facility. "Sometimes, the countryside in the United States can be remarkably inspiring."

MINOLTA

To stay in shape, President **Hideo Tashima** of **Minolta Camera Co., Ltd.** plays golf and practices *makkoho*, Japanese yoga. "A key position in *makkoho*," Tashima says, "involves sitting on the floor, spreading the legs as close to 180 degrees as possible, and leaning forward slowly until the forehead touches the floor. I can't do that yet, but I'm not giving up. This exercise helps my concentration and gives me new management ideas."

The same dedication and determination that Tashima invests in his daily sessions of *makkoho* help him direct the company his father founded in 1928. Though Minolta began as a camera maker, the company's recent progress has been toward increased diversification. Minolta is still a top manufacturer of cameras, but today only 37% of its net sales of ¥370.5 billion (about US$2.6 billion) are generated from cameras, accessories and other precision optical instruments. The largest percentage of sales comes from a wide range of business machines, including copiers, laser printers and facsimiles.

"As a leading camera manufacturer," says Tashima, "we will continue to pursue growth of our camera sales, but at the same time, we anticipate that sales growth of our business machine operations will increase ever more rapidly, becoming equal in importance to our other operations." Perhaps reflecting that trend, Minolta has only two overseas plants for manufacturing and assembling cameras and related items; four plants exist that either assemble copiers or produce related items such as toner, lens elements and components.

One of these plants is Minolta Advance Technology, Inc. (MAT) in Goshen, New York, which produces copier toner for the domestic U.S.

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MINOLTA

BINOCULARS CAMERAS COLOR AND LIGHT METERS COPIERS DOCUMENT IMAGING SYSTEMS FAX MACHINES PLANETARIUMS

Hideo Tashima
Minolta Camera Co., Ltd.

market. Tashima comments, "MAT exports 22% of its production to Europe, and we'd like to increase that figure — but even operating at full capacity it's difficult handling both export volume and meeting American domestic demand."

MAT takes an enlightened stance on a variety of issues in the U.S., and is taking the lead in redefining the role of global corporate citizen in addressing a variety of social and environmental issues. Minolta supports numerous community activities in the U.S. The company focuses on the specific needs of the local community, education-related contributions, environmental concerns and personal involvement by Minolta employees.

Regarding environmental issues, Tashima explains: "Minolta's main concerns relate to the disposal of our products and packaging materials, such as plastics." An environmental committee at Minolta is charged with studying those issues and makes specific recommendations to Tashima. This kind of dedication paid off when, in June 1991, MAT was locally awarded recognition as a model environment-oriented company. This arose from the company's focus on recycling paper, and this concern for the environment has filtered down to individual Minolta employees, who invest and volunteer their personal time in collecting empty cans and bottles for recycling.

As well, Minolta Corporation (MC) in New Jersey is actively devoted to supporting the community — not only through financial contributions, but through a wide variety of philanthropic endeavors. According to Tashima, "One activity that stands out is the Hugh O'Brian Youth Foundation (HOBY), which recognizes and rewards the leadership potential of high school sophomores. HOBY was initially established for American students, but now includes high school students from Japan and around the world." By supporting students with various education-related programs such as HOBY, MC has earned widespread local support and praise.

It is through activities such as these that Minolta defines itself as a truly responsible corporate citizen. In the company's consistent efforts to think and act globally — a fundamental corporate precept — the enlightened vision of Minolta continues to evolve.

MITSUBISHI KASEI

According to President **Masahiko Furukawa** of **Mitsubishi Kasei Corporation** (MKC), Japan's largest integrated chemical company, "The chemical industry has one very serious shortcoming: It is highly susceptible to economic fluctuations. When general business conditions are down, the chemical industry is down, and when they're up, the chemical industry is up."

To mitigate the ill effects of economic variables, MKC introduced a plan in the early 1980s to diversify its business. "We placed greater emphasis on higher value-added products — what we call functional products — such as information and electronic equipment, pharmaceuticals and engineering plastics," says Furukawa. "Such products, which in 1980 accounted for 10% of net sales, came to account for 32.4% by March 1991."

That first management plan paved the way for MKC's bold new 10-year plan that took effect in April 1991 and will carry the company into the 21st century. MKC calls the plan "Global 10."

"By the year 2000," Furukawa says, "we want to position our company as one of the world's top 10 chemical manufacturers. To do so, we have targeted consolidated net sales of $15 billion, as against actual net sales of $8.9 billion as of the end of March 1991."

Three main strategies support MKC's new plan: integrating the strengths of the companies in the MKC Group; selecting profitable, high-growth areas; and creating a dynamic corporate culture. The fields MKC views as most promising are the life sciences, information and electronics, functional materials and organic fine chemicals. "Among the problems corporations will face in the 1990s," Furukawa says, "I think those related to the environment will present the greatest challenges."

Recycling is an area of special interest to Furukawa. "Most people don't realize it," he says, "but it costs more to make recycled products than original ones. It is possible to conserve natural resources by recycling, but it's got to be clear who

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75th ANNIVERSARY

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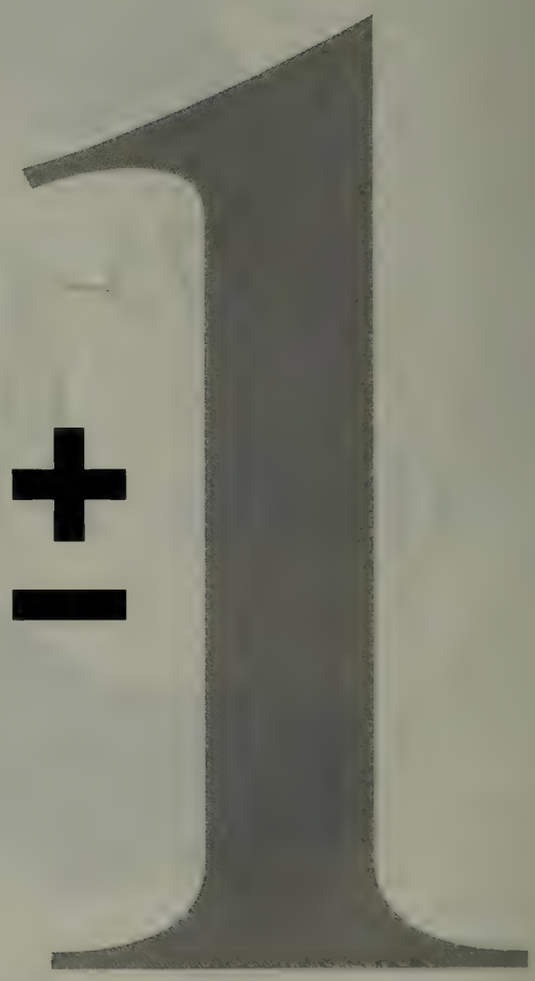

NIKKO

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Masaki Furukawa
Mitsubishi Kasei Corporation

will pay the added costs. I don't believe that the entire burden should fall on corporations. A new social system must be created that also includes the government and ordinary citizens — consumers — to promote recycling."

With regard to new investments in the U.S., Furukawa believes that the outlook is not so good: "We invested pretty heavily in the U.S. over the past two or three years. Our plant in Chesapeake, Virginia opened last fall, producing an aluminum/plastic composite material called Alpolic. That will be our last new plant for a while. I'll be surprised if business picks up before the end of calendar 1992, so this is a good time to strengthen the operations we already have under way in the U.S., rather than making further new investments."

Furukawa is keen on tennis and baseball. The last time he played baseball was three years ago in an intracompany softball tournament. He played third base and batted fourth. The cleanup position fits him perfectly.

YAMAICHI

Worldwide changes in the securities industry have served to focus greater attention on the markets in Asia — an area where **Yamaichi Securities Co., Ltd.** has both experience and expertise.

"The principal reasons for our strong presence in the Asian securities markets," Deputy President **Hitoshi Ishihara** explains, "are the continuing economic growth in those countries, a great and increasing demand for capital — especially long-term, low-cost funds, the growing number of companies seeking listing and the deregulation gradually taking place."

Yamaichi moved strongly into the emerging Asian markets in the early 1980s. Today the company has subsidiaries in Hong Kong, Singapore and Australia, representative offices in Malaysia, Thailand, Korea and China and a joint venture securities company in Jakarta. Besides brokerage and trading of securities, Yamaichi underwrites government corporations in need of funds and acts as a manager for Japanese corporations wishing to be listed on local stock exchanges such as Hong Kong and Singapore. Involvement in privatization of government-owned enterprises is also expected to increase.

"Yamaichi has contributed in outstanding ways to the development of the Asian markets," Ishihara says. "Besides assisting regional investors seeking equity investment opportunities in Japan and other countries, we have arranged equity financing for Japanese corporations in the Asian financial markets. We also hold seminars throughout the area to transfer know-how, and welcome trainees to Japan from countries such as South Korea and China.

"If the Asia-Pacific region is to attract more foreign investment,"

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Hiroshi Ishihara
Yamaichi Securities Co., Ltd.

Ishihara says, "it's essential to improve the market infrastructure by securing desirable market participants, establishing formal trading practices and disclosure systems, formulating a ratings system, and promoting better investor relations."

Perhaps the most important development in Asia is the emergence of venture enterprises in the ASEAN countries. "We expect economic growth in Indonesia, Malaysia and Thailand to outperform the so-called NIEs, where labor costs have skyrocketed in recent years. We identify companies with high growth potential in the ASEAN region, usually family-held companies, and help them obtain financing through initial public offerings."

Yamaichi has approached each market in Asia by looking for outstanding local partners. "A foreign company doesn't know enough about the local situation to enter the market alone, or with another foreign partner. We have found that joining forces with local firms works best, and Yamaichi has earned a reputation as a company that does its best to assist people in the host countries.

"We're looking at the future rather than the present," explains Ishihara. "While the Western economies grow at about 2%-3% per annum and the NIEs in Asia around 5%-6%, the ASEAN countries will experience growth of perhaps 7%-8%.

"Asia is the future," Ishihara says. "And Yamaichi will be a part of that future."

RICOH

At the Quality Control (QC) Congress held last October in Washington, D.C., President **Hiroshi Hamada** of **Ricoh Co., Ltd.,** was one of the guest speakers. "I went to the QC Congress with an open mind," Hamada says. "I wanted to explain Ricoh's thinking about QC and quality management, and I wanted to learn what I could from the American managers and others attending the Congress.

"There is much attention being paid in the U.S. to customer satisfaction (CS)," Hamada says. "Actually, managers in Japan and the U.S. already agree on the basic thinking toward QC, even though some of the fine points might differ. In Ricoh, for example, we have what we call our 'market-in' concept."

Hamada says that market-in is actually another way of expressing CS. "When we develop a product," he says, "we consider not only how the customer will use it but also how to make it easier, sell it easier, carry it easier and service it easier. In effect, everyone working at each stage of the process has his own customers, which is why we believe all employees must participate in quality control."

As more companies do business internationally, the world is gradually becoming 'borderless.' But people in different countries sometimes evaluate the same products the same way, and sometimes in different ways, even when in terms of QC the products are identically produced.

"Sometimes it's impossible to satisfy customers 100%," says Hamada. "We can produce a copier, for example, at world quality levels, and yet the customer could be dissatisfied if the machine couldn't copy using certain paper produced locally — paper that is neither known nor accepted worldwide. Cameras, on the other hand, to use a different example, use stan-

Hiroshi Hamada
Ricoh Company, Ltd.

dard film produced by only a few manufacturers. Maybe the only item human beings everywhere are perfectly satisfied with is the natural mixture of the air we all breathe."

One feature of the contemporary business situation is that competition sometimes leads to rapid progress. "Certain machines, such as word processors, for example, are sometimes improved so quickly," Hamada says, "that prices drop rapidly even for more advanced machines introduced a

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COPIERS AND FAX MACHINES
ONLY FROM THE MIND OF MINOLTA

MINOLTA

scant few months after the first ones. At such times, it is not unusual for a customer who bought the earlier model to feel he should have waited, when actually he made the best possible choice at the time."

When there are trade-offs between a new product's quality, delivery time and cost to consider, the choice is always clear at Ricoh. "Quality must receive the primary emphasis every time," Hamada insists. "If we schedule production of a new product, we will not speed up that schedule even if we are promised an early order for a large number of machines if we ship the new product earlier. We will not compromise quality."

"In that sense," Hamada says, "Ricoh will continue to emphasize quality above all other product features, even as we continue our efforts to win the maximum satisfaction from our customers."

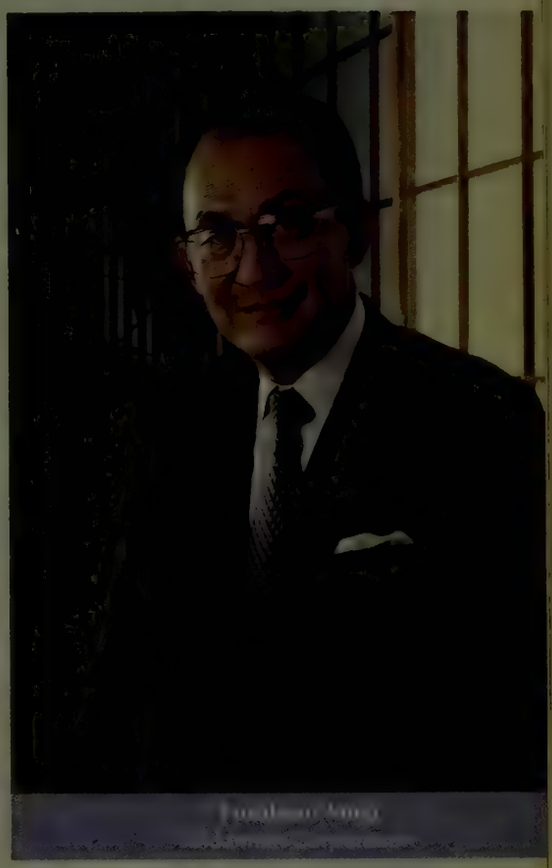
KIKKOMAN

As indispensable as salt and pepper in the West, for generations the soy sauce bottle has found its way onto the table of every home or restaurant in Japan. The distinctive flavor of one of the world's oldest food products has for centuries been carefully formulated by **Kikkoman Corp.**

Brewing soy sauce is very much a traditional art. The family of Kikkoman's Executive Managing Director **Yuzaburo Mogi** has been making the condiment since the early 1660s, and the company is one of Japan's oldest firms. Commenting on his company's best-known product, Mogi notes, "Soy sauce originally came to Japan from China in the sixth century around the same time as Buddhism. Over the centuries, we've refined the flavor, and built up a wide product range based on traditional soy sauce. We're constantly striving to improve the quality of our soy sauce."

As well as aiming for top quality, Kikkoman is also seeking to diversify. In 1990, the company acquired the operations of Del Monte in the Asia-Pacific region (excluding the Philippines). Mogi is enthusiastic about the prospects of the Del Monte line: "Del Monte's motto — 'we grow quality' — fits in perfectly with Kikkoman's own corporate stance."

Kikkoman began its international operations in earnest in the late 1950s. Kikkoman International Inc., established in San Francisco in 1957, remains the company's overseas headquarters, and the United States is Kikkoman's principal overseas market. The soy sauce plant built in 1972 in Walworth, Wisconsin is gradually being enlarged to meet increasing demand from the domestic U.S. market (10% annual



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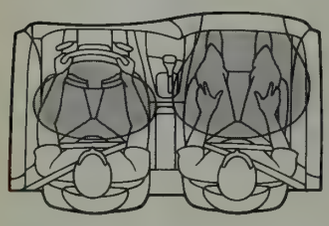
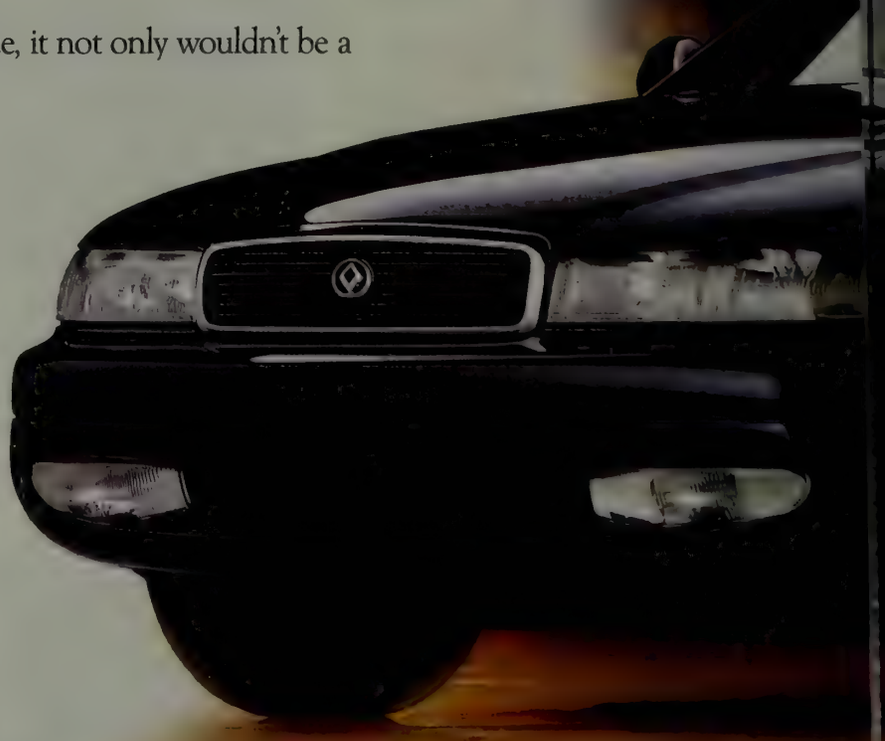


of its 24-valve V6 engine, the security of standard air bags for both driver and passenger and the supple contours of its leather-trimmed upholstery.* After all, if the new Mazda 929 didn't offer the prerequisites of uncommon comfort and performance, it not only wouldn't be a luxury sedan. It wouldn't be a Mazda.



THE MAZDA 929

The only car in its class with dual air bags standard. ABS. 3.0L, 24-valve V6 engine. Multi-link suspension. *Available leather-trimmed upholstery. First car with available solar-powered ventilation system. 36-month/50,000-mile limited warranty. No-deductible, "bumper-to-bumper" protection. See your dealer for details. For a free brochure on the new 929 or any new Mazda, call 1-800-639-1000.

*Seats upholstered in leather except for back side of front seats, bottom cushion side panels, and other minor areas.

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mazda
IT JUST FEELS RIGHT

growth), as well as new demand from Europe.

Mogi believes it is partly because the American consumer tends to be more adventurous than consumers of other countries that the United States remains Kikkoman's most important overseas market. He comments, "It was the Americans who started using soy sauce on steak, and they who invented teriyaki steak by marinating meat in soy sauce."

Kikkoman is making further efforts to broaden its overseas activities. Today, overseas sales account for 20%-25% of consolidated net sales; North America accounts for 75%-80% of those sales, which consist solely of soy sauce products.

As Kikkoman broadens its global activities, the company is also bearing its corporate responsibility toward the environment by developing containers that are either totally recyclable or reusable. Mogi also emphasizes that soy sauce production is non-polluting: "Almost everything is reused: Soybeans are pressed to make the sauce, their residue is used for animal feed and the remaining oil makes laundry soap."

Combining time-honored quality with the ability to adapt to a changing business environment, Kikkoman is able to look to the future with a measure of confidence as it develops its overseas operations.

MATSUSHITA

President **Akio Tanii** of **Matsushita Electric Industrial Co., Ltd.** likes to visit temples and view Buddhist images. "They are a calming influence on me," he explains. "I'm usually involved with making decisions about today and tomorrow, and the Buddhist statues remind me to remember yesterday."

One of the current issues of great concern to Tanii is that of globalization: "The general globalization of Japanese corporations is a song that has been sung for a decade, but Matsushita has perhaps tackled it more seriously than other Japanese companies." Tanii firmly believes that no Japanese company today can afford to treat it lightly.

Akio Tanii
Matsushita Electric Industrial Co., Ltd.

Tanii explains: "We now have 35 companies in the U.S., including 19 manufacturing facilities, and nine research centers," Tanii says. "Our newest R&D center is in Research Triangle Park, North Carolina. Our American plants account for about 20% of our overseas production, and we are moving to raise the local content of American production to 50%. Matsushita is setting its roots firmly in the U.S., and our local American content will eventually be 70%. We also want to increase the number of American executives sitting on the boards of our U.S. companies."

Tanii adds, "Many people don't realize that our strategic alliance with MCA by itself upped the number of our American employees from 11,000 to 28,000. I'm also happy to say that, in line with our founder's precept that 'everyone is an asset,' we have initiated a plan to bring as many as 100 of our overseas employees, including many Americans, to Japan during this fiscal year to work alongside their Japanese counterparts. If this plan succeeds — and it is already doing well — we will substantially increase that number next year. Their experiences in Japan will contribute to increased mutual understanding."

In the area of corporate social responsibility, Matsushita devotes 0.1% of sales in the U.S. to local community programs. One of the most successful of these is called Panasonic Kid Witness News, which allows sixth-graders to learn to produce their own news programs with Panasonic equipment. "It's amazing," Tanii says, "but we started the Kid Witness News in 1989 in only 17 schools in five cities, and today the program is expanding to cover 200 schools in over 40 cities. It's really heartwarming to see the local response."

Other activities in the U.S. include the export of $600 million worth of American products. "A little known fact," Tanii says, "is that Matsushita annually imports about $30 billion worth of products from around the world, more than any other Japanese manufacturer."

Matsushita also has joint ventures in the U.S. with Tandy (personal computers), Eastman Kodak (batteries), Selbourne Computer Inc. (workstations), and Whirlpool (vacuum cleaners). These are all in line with the company's ongoing effort to contribute to the American economy and help offset Japan's overly favorable trade balance.

THIS IS WHAT WE MAKE. BUT IT ISN'T ALL WE DO.

We're committed to producing some of the most technologically advanced products in the world. But we feel an equal responsibility to create a healthy business environment and have a positive impact in our own local communities.

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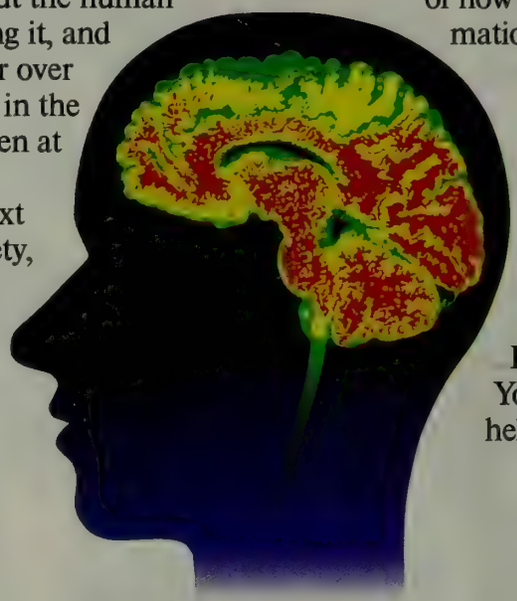
Our focus as we approach the next century, and a rapidly graying society, is the study of aging and its related disorders. Starting with the brain. Right now we're working on the causes and possible prevention of Alzheimer's disease.



You might think that this type of information is unexpected coming from Japan's largest integrated chemical company, Mitsubishi Kasei, but it's the perfect example of how we're into many different fields. In information and electronics, we're the only company that manufactures floppy, hard and optical disks. In plant genetics and agriculture, we develop disease- and insect-resistant strains and hybrids to feed a hungry world. And we make possible the continuing, vital research of the Mitsubishi Kasei Institute.

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MITSUBISHI KASEI

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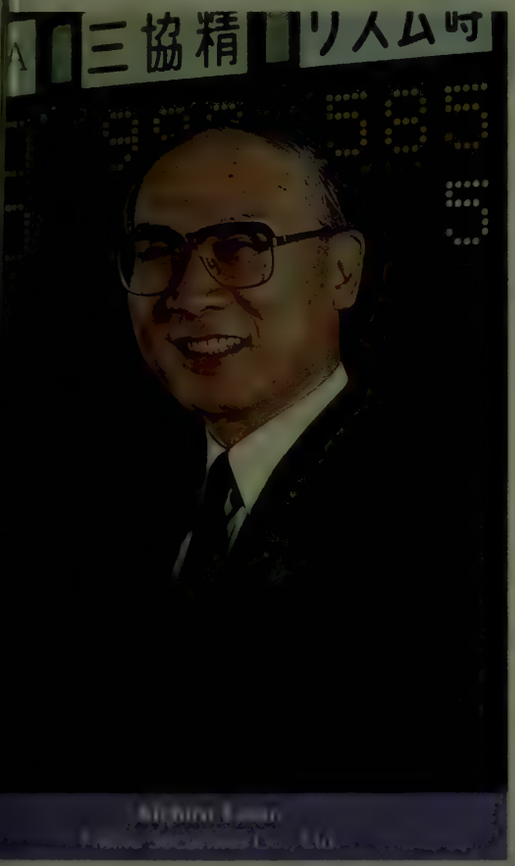
NIKKO

Nikko Securities Co., Ltd. is paying special attention these days to internal structural reform. Appointed president in June 1991, **Kichiro Takao** aims to bring Nikko "back to basics."

"We are reconsidering how we relate to our customers and employees," Takao says. "We're building a 'new' Nikko Securities, and total customer satisfaction is a particularly important goal."

So Nikko is pursuing a people-oriented strategy, with customer satisfaction a top priority. "I constantly stress to our frontline employees," he says, "how important it is to be totally open with our customers. If we provide an investor with information, it must be clear, sufficient and appropriate. The principal goal of information is helping the customer, not financial gain for the company."



His view on taking care of employees is rooted in his personal experience at Nikko. He says the 1986-1990 bull market reminds him of a similar time from 1958 to 1965. "After 1965," he recalls, "when the market turned sharply bearish, many promising Nikko employees were disillusioned with the securities market, and left the company for other industries. To help prevent history repeating itself, we are giving greater autonomy than ever before to our branch offices, and have established a special middle-management committee to advise top management on the direction the company should take."

Takao is known among his peers for his orthodox managerial ways. "My background in Nikko is grounded firmly in branch sales and personnel management," Takao says. "In the turtle and hare story, I'd be the turtle. I believe that steady efforts lead to solid progress, and that our customers and employees deserve our total attention."

One area Nikko has become strongly identified with is investment technology (IT), where international cooperation is a key factor. "We've worked with American companies like BARRA, Leland O'Brien Rubinstein Associates, Sharpe Associates and Wells Fargo & Co. for years," he explains, "and have developed a number of sophisticated equity and fixed-income products.

"Actually," Takao says, "Nikko offered Wells Fargo products to its clients for over three years before we established a general partnership called Wells Fargo Nikko Investment Advisors (WFNIA) in early 1990. WFNIA is now one of the world's largest passive managers, with over $100 billion under management."

Takao expects the domestic securities business to expand qualitatively, as it has in overseas markets, and eventually there will have to be a more systematic management of funds in Tokyo than there is at present. "When that time comes," Takao says, "Nikko employees will have the degree of specialization needed to cope with sophisticated computer-based products."

Takao played a lot of handball and baseball at university, but now prefers golf for relaxation and exercise. "Unfortunately," he says, "my new job isn't helping my handicap!"

SEGA

Competition is heating up in the U.S. high-tech home entertainment (HE) industry, and that suits President **Hayao Nakayama** of **Sega Enterprises, Ltd.** just fine.

"Not so long ago," he says, "one game company held a monopoly in the United States. But not any more. About two years ago, we pioneered the move from 8-bit to 16-bit video game systems, and the American consumers loved it. So we broke the monopoly. We have great confidence in our hardware and software and welcome competition."

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BROTHER INTERNATIONAL CORPORATION-U.S.A. SUPPORTER OF EDUCATION, ATHLETICS & THE ARTS

Brother International Corporation, the sales and marketing company for Brother products in the United States, with its corporate headquarters in Somerset, New Jersey, has a philanthropy program which it does not widely publicize. The Corporation's Chairman, President & CEO, Hiromi Gunji, believes that the company has an obligation to be a good corporate neighbor and citizen. Following his modest example, the company does these things without seeking publicity and attention. They do it because it is correct to try to give something back to its employees, their customers, and to the country which nurtures them.

SMITHSONIAN INSTITUTION AND BROTHER JOIN TOGETHER TO PROMOTE EDUCATION.

Since 1989, Brother has been The Official Sponsor of The Smithsonian Institution's National Education and Outreach Program, funding curriculum kits which are aimed at teaching High School juniors and seniors critical thinking skills and how to do research. The Smithsonian's Office of Elementary and Secondary Education had long realized that our college and university students needed better instruction on how to do research, with the two kits (Carbons to Computers — The Changing American Office, and Image & Identity — Clothing and Adolescence in the 1990s) which have already been completed and distributed to thousands of High Schools, and other institutions, Brother helped them to fill this need. This program is ongoing, and Brother has funded a third curriculum kit which will be completed and ready for distribution during this 1991/'92 school year; its working title is Protest and Patriotism in the United States.

BROTHER, A WORLDWIDE SPONSOR OF THE OLYMPICS.

In 1984, Brother became The Official Typewriter Supplier to the Los Angeles Summer Olympic Games. In 1988, the joint Olympic Organizations created a program called The Olympic Programme (TOP), allowing a sponsor to become a worldwide sponsor by signing four contracts (with the IOC, the USOC, the Summer Games Organizing Committee in Seoul, and the Winter Games Organizing Committee in Calgary). By becoming a TOP sponsor, one does not negotiate individually with all of the many National Organizing Committees in each country, because all of the smaller organizing committees are automatically included in a TOP sponsorship. There were nine TOP I sponsors. For 1992, TOP II was organized, and eight of the original TOP sponsors returned, and were joined by four more to make a total of twelve. Those companies are, 3M, Bausch & Lomb, Brother, Coca Cola, EMS (The United States Postal Service), Kodak, Matsushita (better know in the U.S. as Panasonic), M & M Mars, Phillips, Ricoh, Time Inc. (Sports Illustrated in the U.S.), and VISA. For Brother, its Olympic involvement allowed it to achieve two of its goals.... to support athletics and education. Education may not seem immediately to be a reason for sponsoring the Olympic Games, but Brother believes that when people see that their Olympic heroes become leading corporate citizens, they realize that being a "jock" does not mean you can't be smart too. Secondly, and perhaps more importantly, the Olympic Games teaches everyone that they can compete in a healthy, non-violent environment, while it promotes international peace and harmony.

BROTHER'S DEDICATION TO COMMUNITY.

On a community level, Brother has been a major sponsor of Athletics at Rutgers, The State University of New Jersey. Rutgers has long been a staunch supporter of excellence in academics, not just athletics, to the point of sidelining any student athlete who does not meet the academic standards. A part of Brother's sponsorship dollars goes into their Student/Athlete Scholarship Fund, and another part helps to support their Athlete Community Service Program, where athletes visit underprivileged or sick children to show them you can achieve excellence in both academics and athletics. These student athletes volunteer their time, and Brother supplies them with T-shirts and other tangible items that will remind these children about the visit they've had and the lesson they've learned. Additionally, through Brother's largess, Rutgers has given thousands of Football tickets to groups which might not otherwise have been able to afford to attend games.

Of course, like all large corporations, Brother donates funds to other worthwhile organizations and events, but they do it with the single purpose of helping and teaching others, not for the publicity they could garner.

To make a request for a corporate sponsorship and donation, it must be done in writing, and sent to the attention of Ms. Dorothy Maltzman, Corporate Public Relations, Brother International Corporation, 200 Cottontail Lane, Somerset, NJ 08875-6714.

BROTHER INDUSTRIES, LTD.

"It was very difficult, if not impossible, to attract software developers to design for our 8-bit game system because most were tied into arrangements with Nintendo," Nakayama explains. "This situation has changed dramatically with the success of Genesis and our other new products, such as Game Gear, the color portable hand-held system."

When Sega was considering the introduction of 16-bit machines, a serious question arose: Should the new machines be allowed to use 8-bit video games? "It's not so relevant in terms of performance," says Nakayama. "The 8-bit games don't play faster or suddenly take on more vivid colors with the 16-bit machines. But there was another, more important consideration — the consumer. We felt the choice should lie with the consumer, rather than being determined by us."

Despite Nintendo's recent entry into the 16-bit category, the Sega Genesis system continues to be the sales leader. Part of the reason is Sega's more sophisticated and extensive software library. This past Christmas, Sega offered more than 100 titles compared to about 18 from Nintendo.

Nakayama is excited about what the future holds in the HE industry beyond the 16-bit machines. "Multimedia is the buzzword in our industry," he says. "It's about the only area left for introducing new products. It won't be long, for example, before we attach CD-ROMs to our 16-bit systems. They'll open up completely new types of games. At first, the CD-ROM drive will be bought separately, but before long it will come as an integrated unit with the game hardware."

The key to success in the HE industry, according to Nakayama, is to develop and market appealing titles, and this boils down to technological capabilities in hardware and software. "Around 600 of our 2,000 employees," he says, "are in R&D. It was our own in-house staff who designed Sega's 16-bit system. As a result, we don't face the problems our competition faces today related to 'overkill' specifications."

With regard to future plans for the U.S. market, Nakayama says: "We currently have 150 employees in the U.S. That figure will double within a year as we move to bolster our operations, particularly in after-sales servicing, R&D and marketing. The American market is growing fast, and Sega intends to remain at the forefront of the competition."

NEC

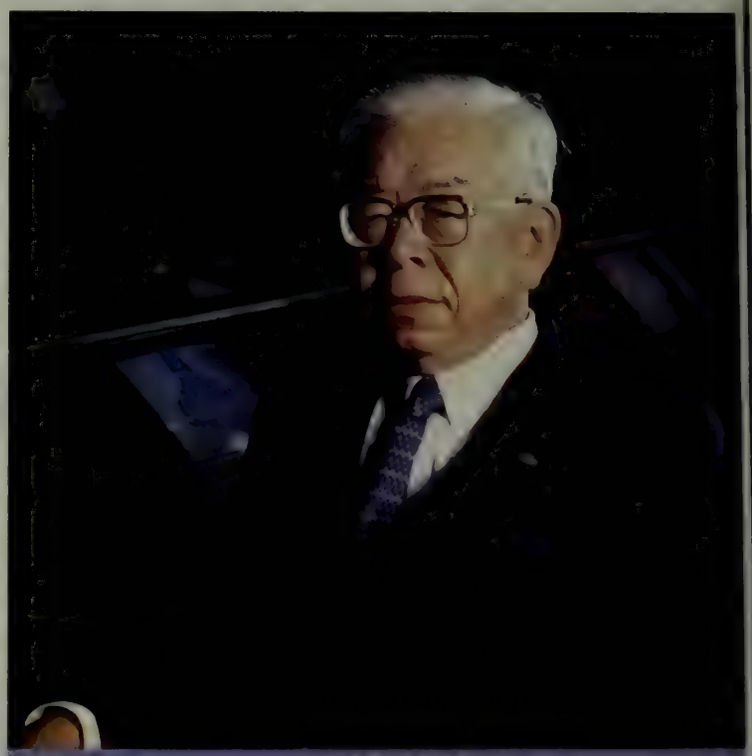
Globalization has recently become a fashionable concept in Japan, but **NEC Corporation** first applied it almost a full century ago.

"Our company," says **Dr. Tadahiro Sekimoto**, president of NEC, "was established in 1899 as Japan's first joint venture between Japanese and American partners. The American company was Western Electric, and the Japanese partners held a minority stake of 44%." That was the beginning, and today NEC has 93 affiliates and liaison offices in 44 countries, employing over 170,000 people worldwide.

Sekimoto's office is located on one of the upper floors of the 43-story NEC Super Tower, the company's head office building in Tokyo. The tower is a state-of-the-art, intelligent building that embodies two of NEC's favorite concepts: C&C, the integration of computer and communications technologies, and "holonic" organization, which creates a harmonious whole while also promoting individualism. "C&C expresses our corporate philosophy best," Sekimoto says. "By integrating computers and communications, we try to promote mutual understanding and help people around the world realize their human potential."

Sekimoto has a talent for coining words. "Holonic," for example, combines the Greek words *holos* (whole) and *on* (individual). "I created the word 'holonic,'" he says, "to express the idea of an overall organization operating under a single banner, in which the individuals who comprise the whole are harmoniously integrated, such as by sharing information.

"We give greater autonomy to each group and affiliate," he explains, "while simultaneously expecting the whole integrated organization to grow stronger."



Tadahiro Sekimoto
NEC Corp.

Meanwhile, to benefit from different labor costs in different countries, NEC gradually developed what Sekimoto calls "mesh" globalization. "Mesh globalization

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FOB-1/92

refers to decentralized management," Sekimoto explains. "It can be observed, for example, in our semiconductor chip manufacturing. One of our operations has chips that are produced in California, assembled in Singapore and then sold in Singapore and other markets."

NEC's resourcefulness in promoting trade is not unusual for a Japanese company. As Sekimoto says: "Unlike resource-rich countries like the U.S., Japan must import natural resources and raw materials, and then export manufactured products to earn foreign currency to pay for the imports."

NEC has a long-term action plan for reducing its in-house trade surplus, which translates into an expansion of imports and increased overseas production. "We decided to review our internal operations," Sekimoto remarks, "and bring our corporate export and import figures into closer balance. For the period ending March 1991, we imported $916 million worth of various items. Our plans for fiscal 1993 will raise that figure to about $1.4 billion."

For its trade related to the U.S., NEC will move even more forcefully than elsewhere to reach an equilibrium. "We now export about $1.3 billion to the U.S.," Sekimoto explains, "and import about $700 million. By the end of fiscal 1993, we plan to reduce our exports to $1.2 billion and increase our imports to about $900 million. That will shrink the surplus from about $600 million to about $300 million. At the same time, we will raise the percentage of local U.S. production, in terms of value of total sales."

It used to be said in economic circles that if the American economy sneezed, the Japanese economy caught a cold. But Sekimoto says, "No, I don't think that's true today. Now we're almost on equal terms, and the U.S. has become more like a big brother. If the American economy sneezes today, I think the Japanese economy will also sneeze."

Sekimoto was recently honored to become a foreign associate member of the American National Academy of Engineers. He says, "I think it's most important for Japanese and Americans to respect each other and be more flexible toward one another's culture. Cultural awareness is sometimes the key to greater economic understanding." ■

The 14th Annual Special Japan Supplement, 1992, was written by Thomas I. Elliott, Dynaword Inc., Tokyo. Designed by Atsumi Matsui, 101 Design Office, Tokyo. Photographed by Sheila Phalon, Tokyo.

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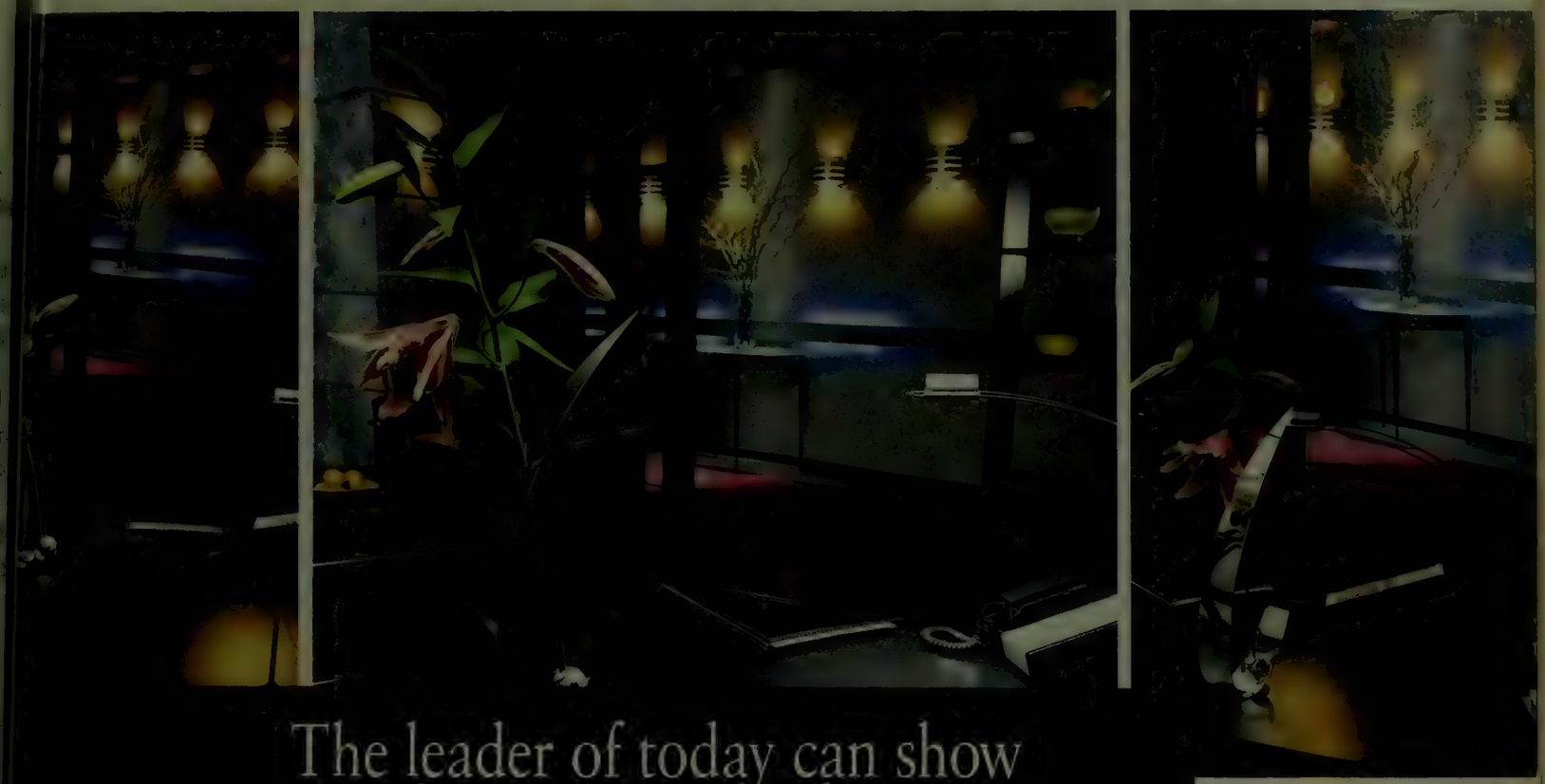

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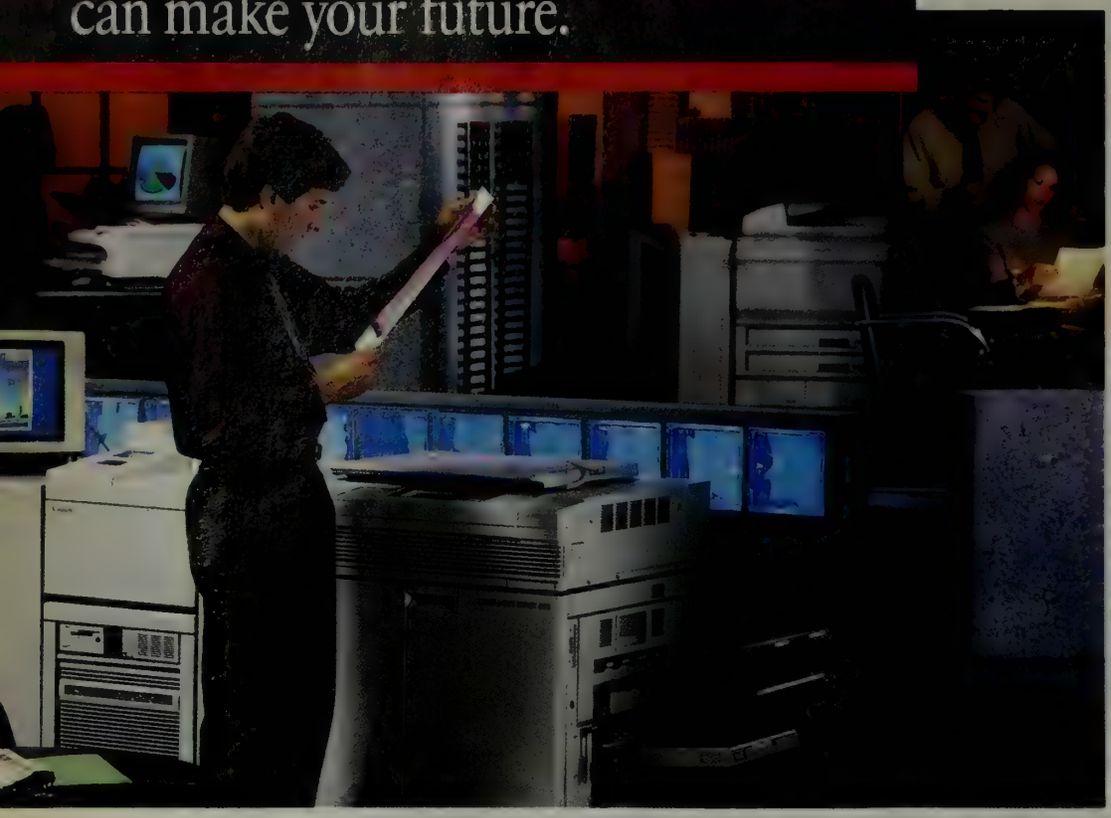

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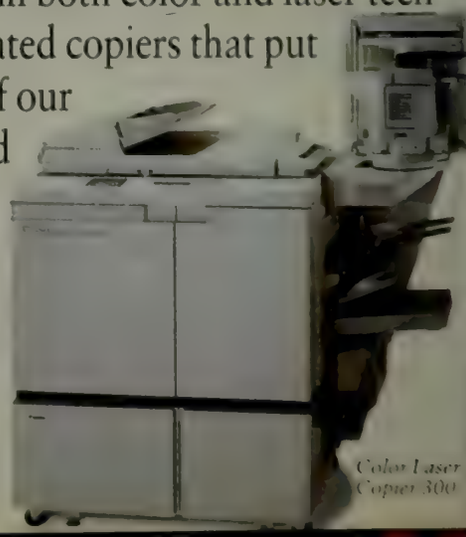

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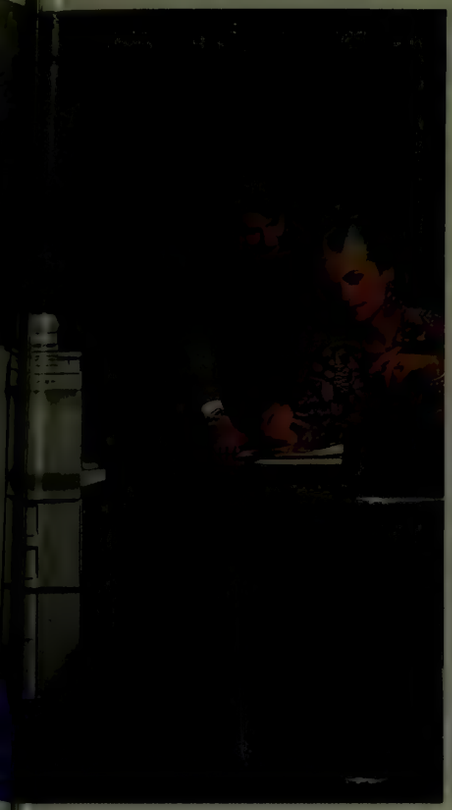

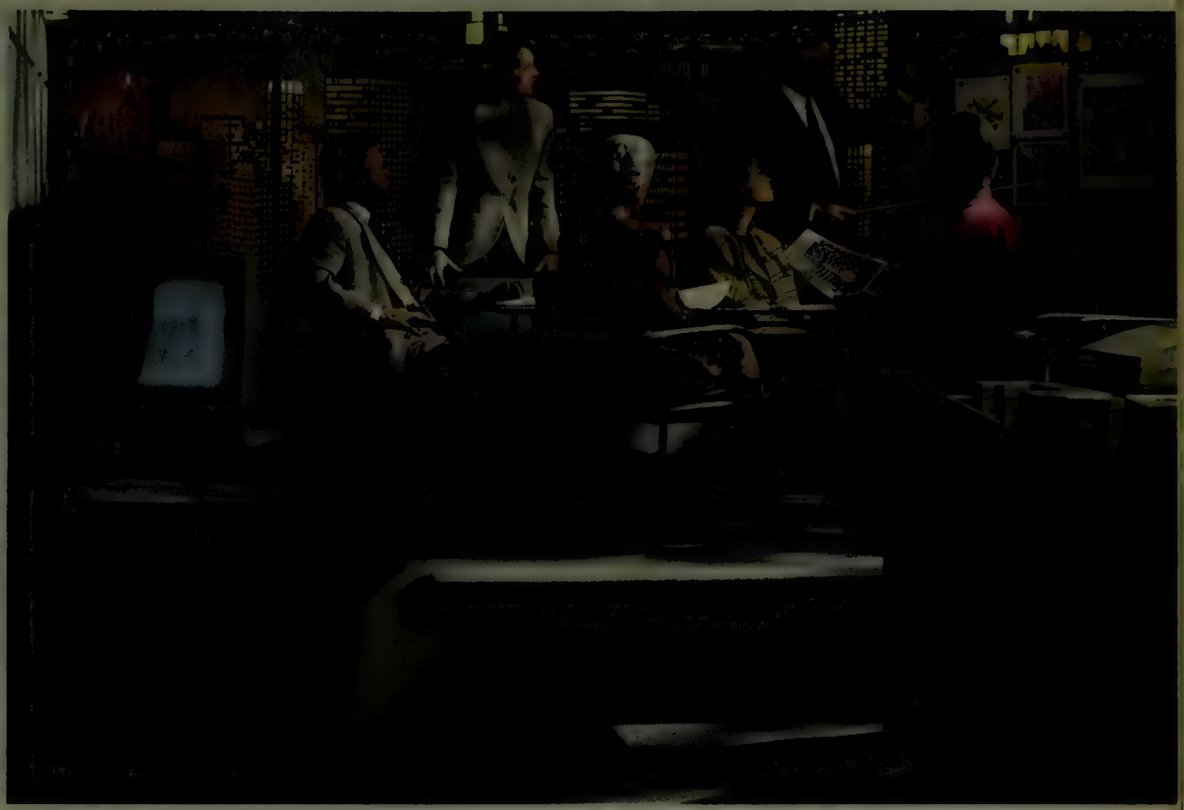

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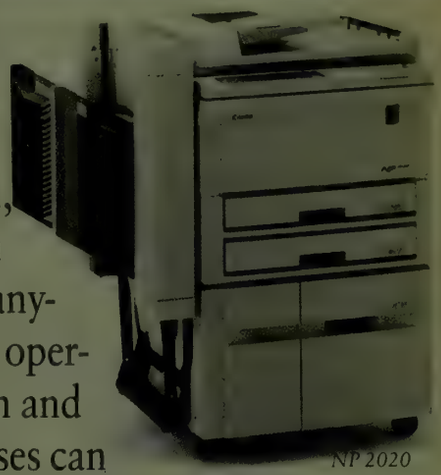

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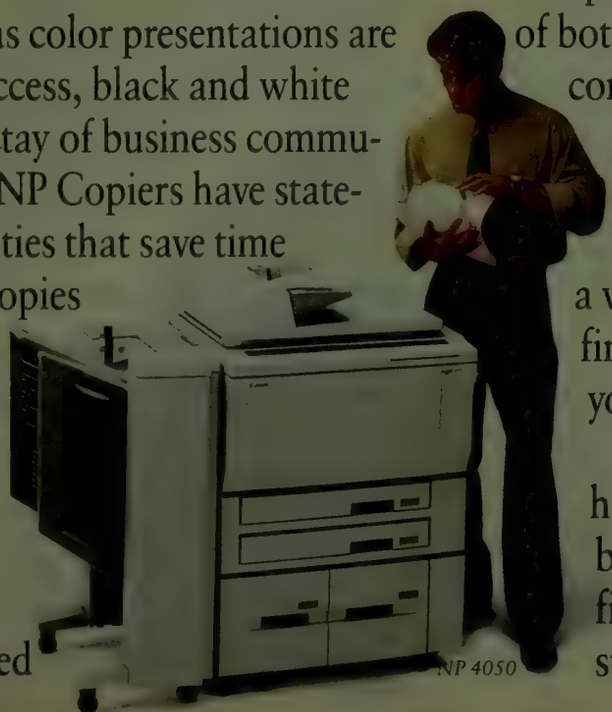

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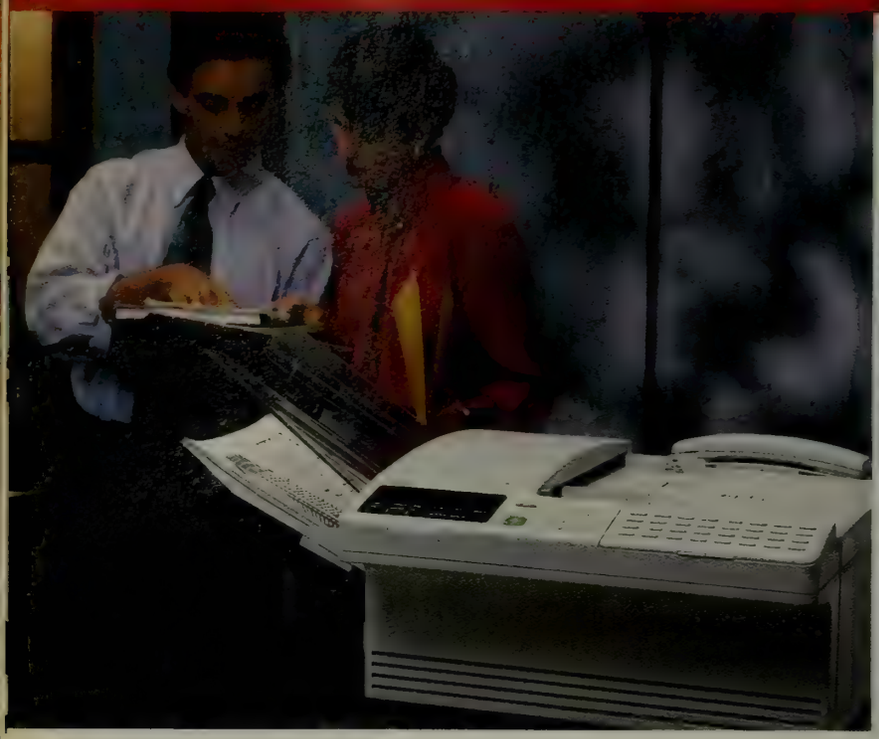

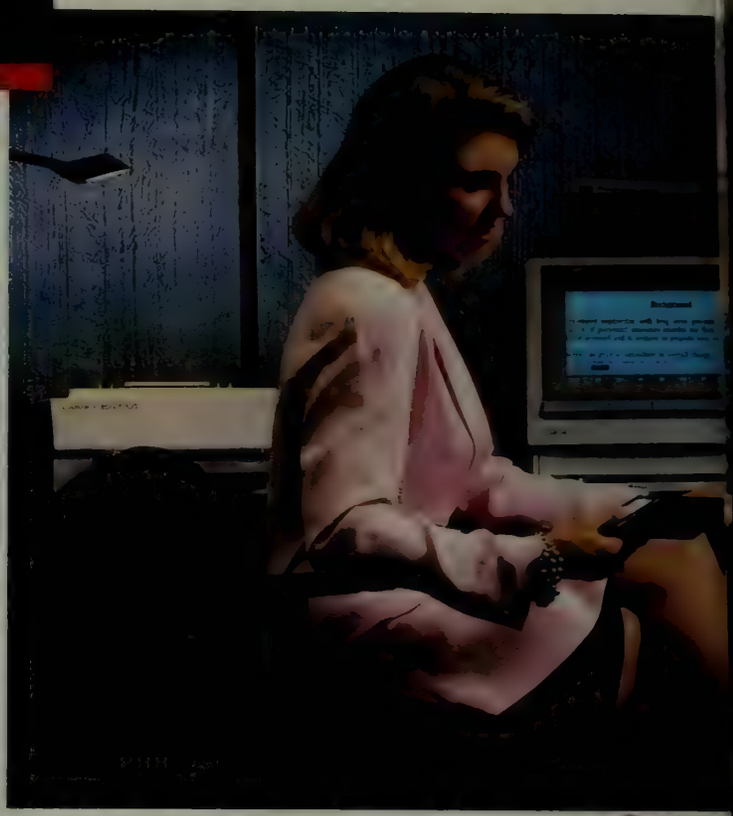

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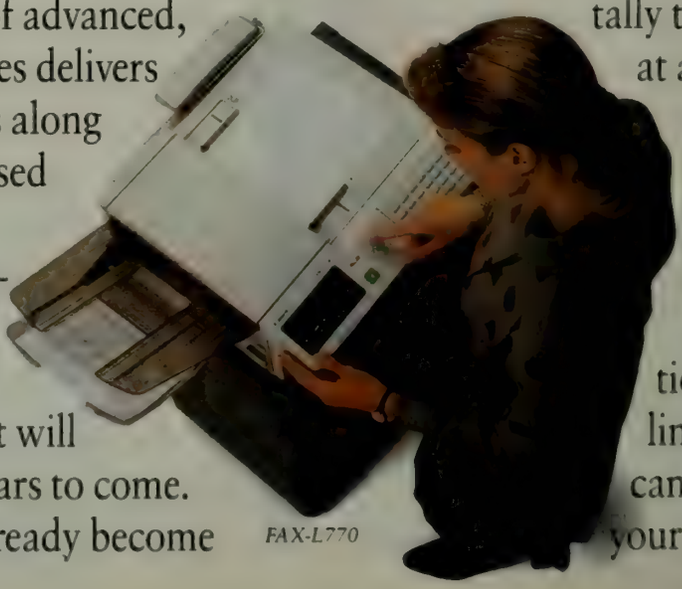

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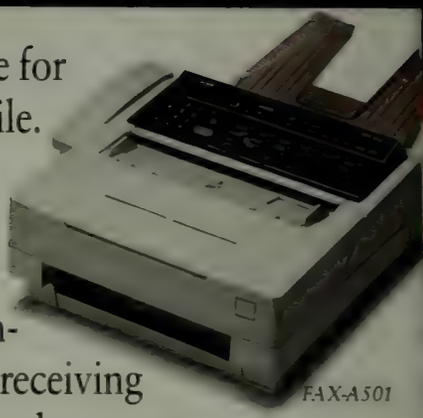

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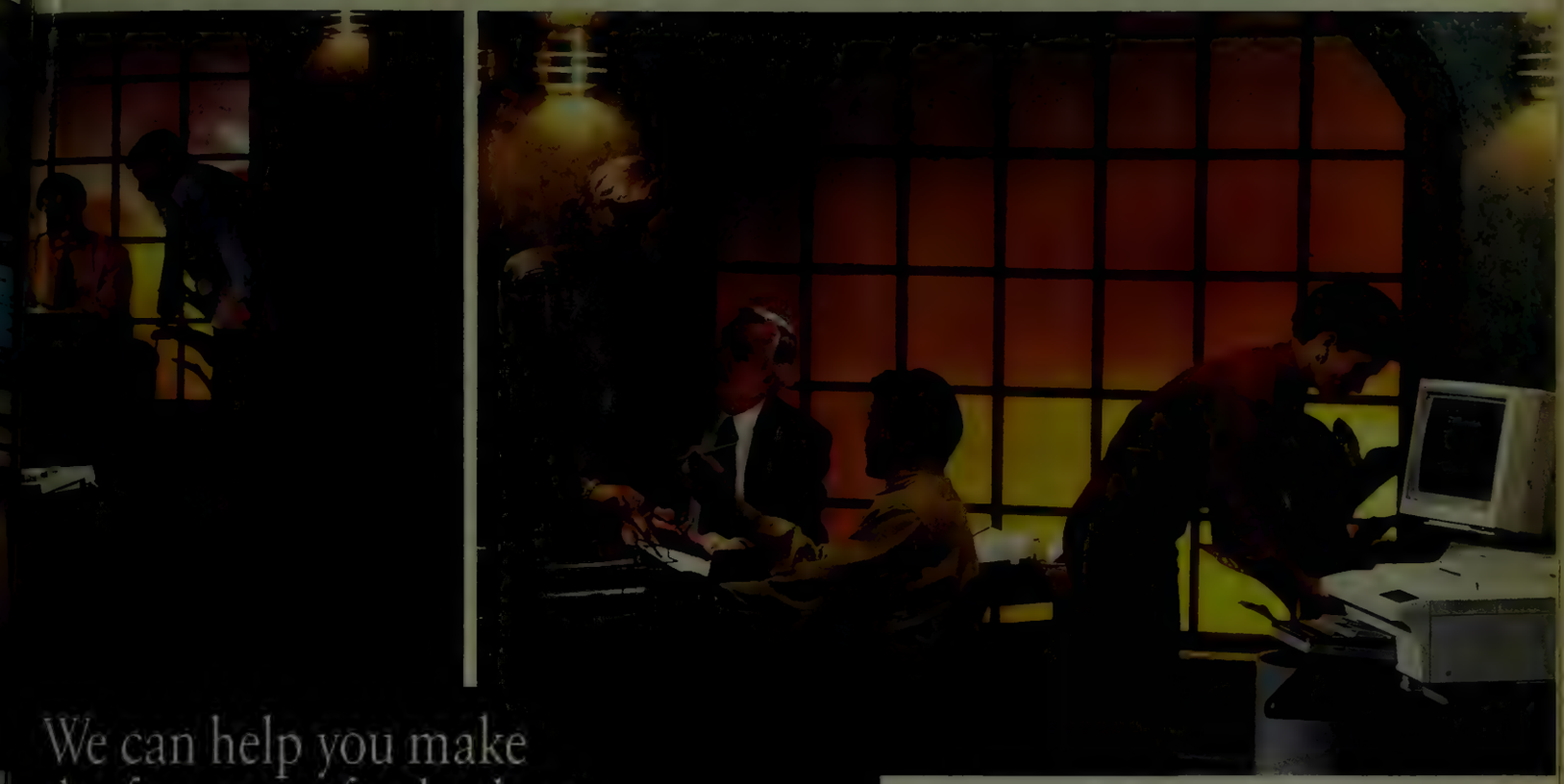

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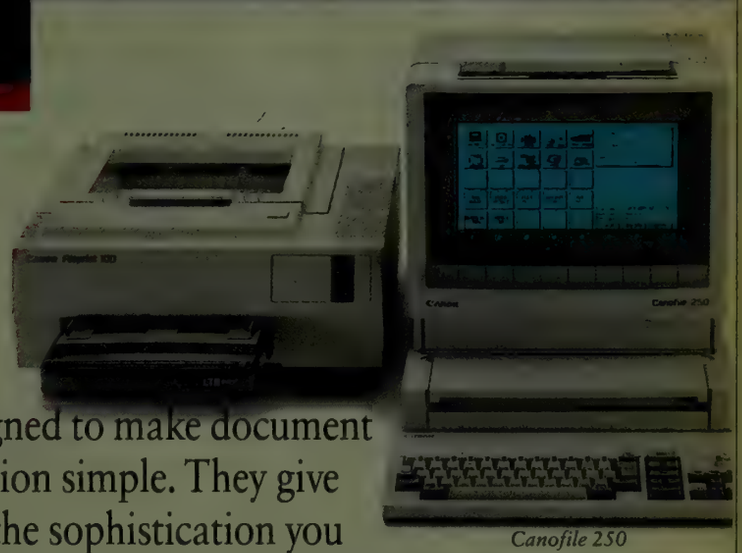

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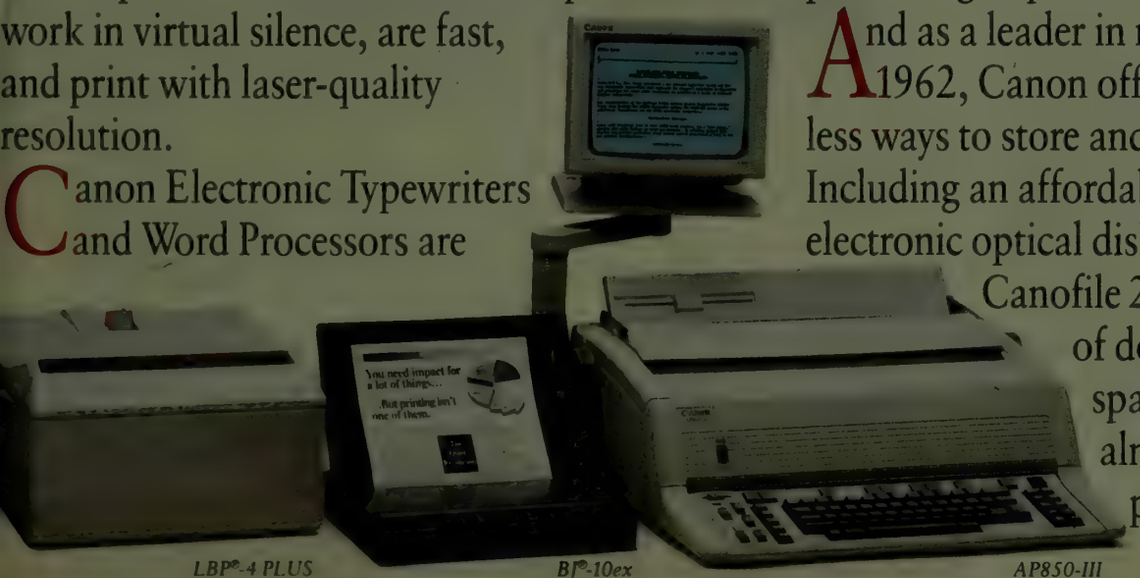

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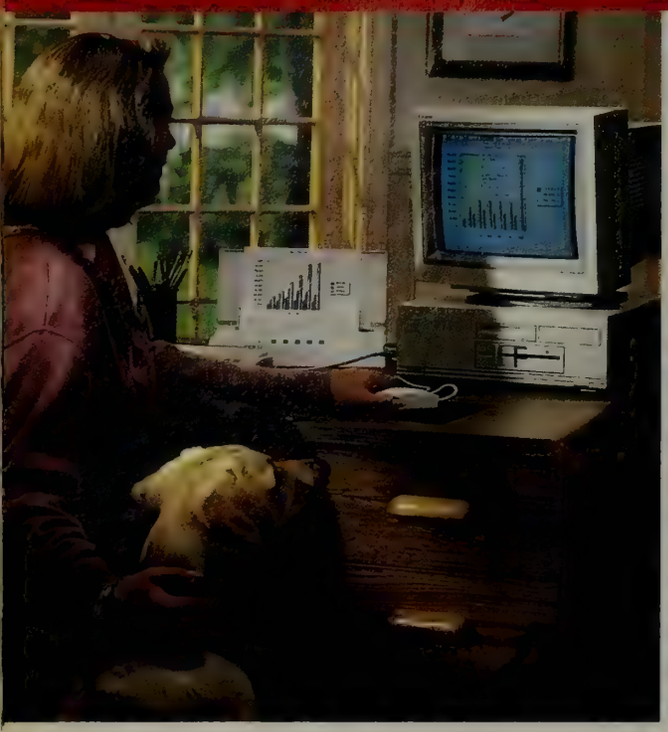

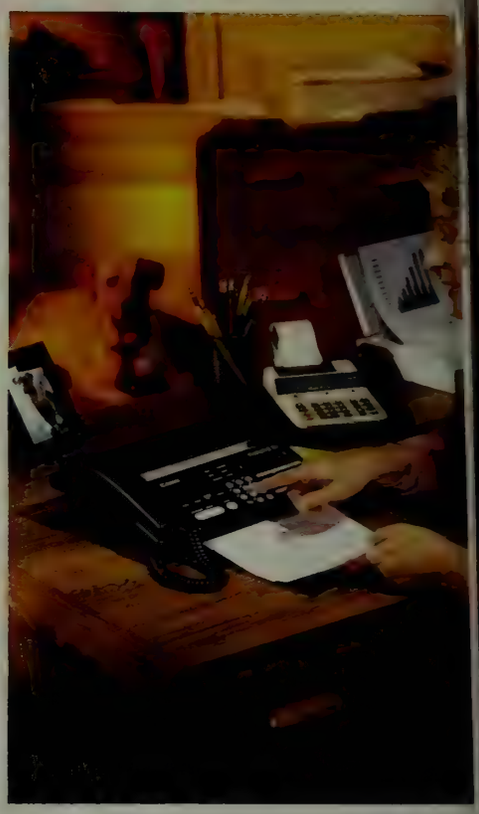

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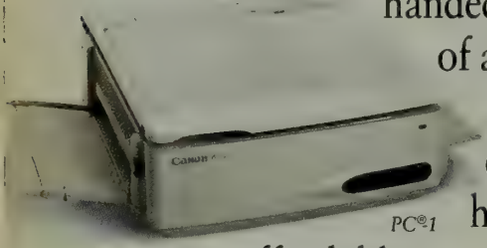

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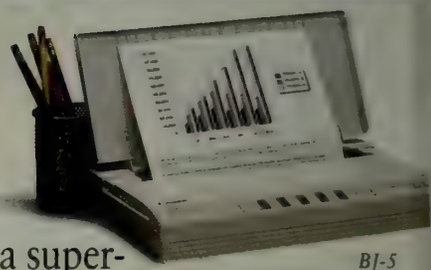

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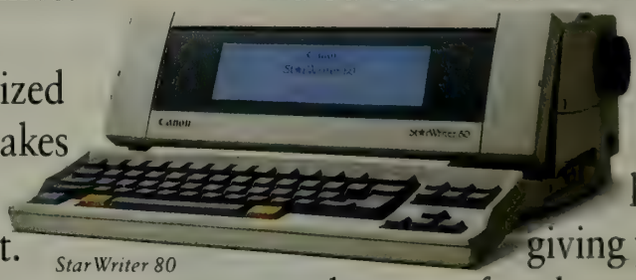

StarWriter 80

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Wall Street had a good year in 1991: Through mid-December the S&P 500 gained 14%. But over the last five years, half the stocks in this survey did not do as well as risk-free Treasurys.

By Timothy Dodman

Over the past five years, the FORBES universe of 1,180 industry survey stocks (excluding Biotech stocks) fared only slightly better than the market, averaging a 58% increase, compared with a 56% gain in the S&P 500 since Dec. 31, 1986.

Plugged into our average performance is the 1,073% gain for Jacobs Engineering and Savin's 97% loss. The median stock in our survey, 556th-ranked American Bankers Insurance, gained only 26% over the past five years. Which means that, excluding dividends, more than half the stocks followed in this issue didn't do as well as risk-free T bills, which returned 41% over the same period.

How will the market do this year? Last year the bellwether S&P 500 rose about 14% through mid-December. That increase came despite consensus forecasts which showed that 1991 earnings of the S&P 500 would be off about 9%. This year profits for the S&P 500 are expected to rise 31%, according to the consensus earnings estimates provided by the Institutional Brokers Estimate System. Does that mean hefty market gains?

Joseph Battipaglia, director of research at Gruntal & Co., thinks those earnings estimates are too optimistic. But he also thinks that in the long run management's response to the recession and the slow recovery may be beneficial. Why? Battipaglia notes that corporations took advantage of a receptive stock market last year to offer additional shares to the public. This strengthened balance sheets and reduced financial leverage. Also, companies have been paring staff and cutting capacity. He thinks growth will remain sluggish through the first half of 1992, but once the economy starts to pick up steam, the increased earnings leverage should boost profits—and the market.

With a 1,600% five-year price gain, U.S. Surgical, a member of the top-ranked health care industry, is the best-performing stock in this year's survey. Based in Norwalk, Conn., U.S. Surgical has more than 70% of the $560 million (sales) surgical stapler market. U.S. Surgical was on the FORBES list of best small companies in America three times in the 1980s. As recently as last year the company—which now has sales of $755 million—was too small to qualify for this survey of larger U.S. corporations.

Another big winner was Home Depot, the chain of warehouse-style home improvement centers. Can Home Depot continue to count on do-it-yourselfers to keep its stock on Wall Street's top shelf? All we can report is that a few security analysts are in sharp disagreement about the company's net worth.

As was the case last year, a good number of the worst-performing stocks are in the financial services industry. HomeFed and CalFed both lost more than 90% during the past five years, while American Capital, off 98%, is the worst performer in this survey.

In order to be ranked in the following table, a firm must be publicly traded as of Dec. 30, 1988. Three-year price histories are footnoted "b," and four-year histories are footnoted with an "a." Companies that underwent a major merger or reorganization since 1986 are not ranked if the event significantly affected stockholders' equity. ■

The best companies of 1986-91

Company	5-year price change	Recent price
US Surgical	1,599%	94
Home Depot	1,560	58⅝
Blockbuster	1,414	11⅛
Novell	1,356	46⅞
Stewart & Stevenson	1,222	54
Microsoft	1,100	96½
Jacobs Engineering	1,073	24
Conseco	956	59⅜
Thorn Apple Valley	914	35½
NIKE	868	56⅞

Note: Except as indicated, price changes are from Dec. 31, 1986 to Nov. 20, 1991. b: Three-year price change.

The worst companies of 1986-91

Company	5-year price change	Recent price
American Capital	–98%	⅛
HomeFed	–98	½
Sudbury	–97	¼
Savin	–97	⅛
MLX	–97	⅛
MAI Systems	–97	⅜
Finevest Foods	–97b	¼
Eagle-Picher Inds	–97	1¼
Continental Airlines	–96	1⅜
CalFed	–96	1⅜

WHO'S WHERE IN THE STOCK MARKET

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
869	AAR Corp	–20.6	12⅜	1.30	3.9
130	Abbott Laboratories	154.2	58	2.96	1.7
412	Acme Steel	51.9	15	1.24	0.0
624	Adia Services	16.4	17¾	1.40	0.9
796	Advanced Micro	–7.3	12¾	1.15	0.0
89	ADVO-System	198.2	20⅞	1.33	0.0
918	Aetna Life & Cas	–33.0	37¾	5.56	7.3
NR	Affiliated Pubs	NA	8	0.25	3.0
922	HF Ahmanson	–33.5	14⅜	2.30	6.1
NR	Air & Water Tech	NA	18⅞	0.64	0.0
249	Air Express Intl	95.8	17⅝	1.82	0.9
254	Air Prods & Chems	92.5	67⅝	4.68	2.3
485	Airborne Freight	38.1	20⅝	2.13	1.5
NR	Akzo	NA	35¼	4.36	4.8
745	Alaska Air Group	0.0	20	1.76	1.0
576	Albany International	22.6a	16¼	1.21	2.2
106	Alberto-Culver	176.9	27	1.39	0.8
67	Albertson's	239.5	36½	2.27	1.5
375	Alcan Aluminium	59.3	20	0.69	3.0
384	Alco Standard	57.6	33	2.53	2.8
895	Alexander & Alexander	–25.5	19¾	1.29	5.1
639	Alexander & Baldwin	14.4	25¾	2.23	3.4
894	Alexander's	–24.7	29¾	NA	0.0
359	Alleghany	62.8	99½	8.32	0.0
470	Allegheny Ludlum	40.9ac	23⅛	2.31	3.8
745	Allegheny Power	0.0	44¼	3.77	7.1
524	Allen Group	30.2	20½	1.86	0.2
NR	Allergan	NA	21⅛	1.54	1.7
NR	Alliant Techsystems	NA	21⅞	4.66	0.0
1091	Allied Products	–89.4	3½	–0.24	0.0
767	Allied-Signal	–2.5	39⅛	3.62	2.6
205	Alltel	110.7	36⅞	2.65	4.0
313	Alcoa	72.0	58¼	5.06	3.1
1080	AM International	–84.3	1	0.05	0.0
383	AMAX	57.7	19⅛	1.20	4.2
971	AMC Entertainment	–44.3	4⅞	0.16	0.0
649	Amdahl	13.4	13¼	1.41	0.8
180	Amerada Hess	119.5	52⅛	3.08	1.2
1081	America West Airlines	–84.6	1½	–0.93	0.0
556	American Bankers	25.9	17⅝	2.44	3.4
280	American Brands	82.4	38¾	4.43	4.5
381	American Building	58.5	33⅞	NA	2.8
1113	American Capital	–98.4	1/16	NA	0.0
441	American Cyanamid	46.1	56⅞	4.59	2.6
660	American Electric	12.3	30⅞	2.92	7.8
925	American Express	–33.8	18¾	2.49	5.3
227	American Family	101.0	26⅛	2.07	1.5
689	American General	7.8	39¾	4.57	5.0
479	American Greetings	39.5	36⅝	3.17	2.1
257	American Home Prods	91.5	73⅝	4.76	3.5
335	American Intl Group	67.7	82	7.83	0.6
755	American Maize	–0.6	19⅜	2.50	3.3
NR	American Medical	NA	8¾	NA	0.0
818	American Natl Ins	–10.4	36¾	4.09	5.1
155	American Oil & Gas	140.0	12	0.76	0.0
471	American President	40.7	36¾	3.83	1.6
687	American Stores	8.5	29½	3.45	2.4
442	American Tel & Tel	46.0	36½	2.96	3.6
636	American Water Works	15.2	23¼	2.27	3.7
497	Ameritech	35.8	60	4.82	5.7
388	Ameritrust	56.8	29½	1.96	2.2
626	Ameron	16.2	35	NA	3.7
1101	Ames Dept Stores	–95.2	1⅛	NA	0.0
775	Ametek	–4.3	12½	1.04	5.4
414	Amoco	51.7	49½	3.76	4.4
454	AMP	42.9	51⅝	2.96	2.8

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
663	AMR	11.7	59⅞	4.76	0.0
743	AmSouth Bancorp	0.4	31⅝	3.55	4.6
791	Anacomp	–6.7	3½	0.50	0.0
1005	Analog Devices	–52.8	7⅜	0.77	0.0
738	Anchor Bancorp	1.3a	5	NA	0.0
469	Angelica	41.1	33⅞	2.82	2.6
225	Anheuser-Busch Cos	101.4	52⅝	3.70	2.1
NR	AnnTaylor Stores	NA	16⅛	1.48	0.0
489	Aon	37.4	36¼	4.08	4.4
438	Apogee Enterprises	47.1	12½	NA	2.1
140	Apple Computer	149.4	50½	4.13	1.0
871	Applied Magnetics	–20.6	5⅝	0.05	0.0
133	Applied Materials	152.6	24	1.95	0.0
347	Applied Power	65.6a	13¼	1.20	0.9
109	Arbor Drugs	173.9	21	1.01	0.7
101	Archer Daniels	181.3	27	1.76	0.4
419	Arden Group	50.2	40	NA	0.0
56	Argonaut Group	264.3	25½	3.42	2.7
873	Arkla	–21.1	15	1.17	7.2
814	Armco	–9.8	4⅝	0.39	0.0
753	Armstrong World Inds	–0.4	29¾	2.34	4.0
172	Arrow Electronics	128.6	14	1.25	0.0
892	Arvin Industries	–24.6	21⅛	1.74	3.2
385	Asarco	57.1	23⅜	2.00	6.8
717	Ashland Oil	3.6	29	3.24	3.4
122	AST Research	160.2	16¾	2.38	0.0
1059	Atari	–75.2	1¾	NA	0.0
1013	Guy F Atkinson	–54.2	6¾	0.20	0.0
416	Atlanta Gas Light	51.6	36	2.43	5.7
699	Atlantic Energy	6.0	39⅝	3.44	7.6
270	Atlantic Richfield	85.2	111⅛	8.84	4.9
203	Automatic Data	112.1	37⅜	1.82	1.1
NR	AutoZone	NA	49⅞	1.59	0.0
711	Avery Dennison	4.8	21⅝	1.44	3.7
770	Avnet	–3.4	24⅞	1.75	2.4
468	Avon Products	41.2	38⅛	3.45	3.7
1055	Avondale Industries	–73.2b	4⅛	–0.21	0.0
812	Aztar	–9.4	5	0.35	0.0
825	J Baker	–11.7	9⅛	1.38	0.7
424	Baker Hughes	49.5a	20⅜	1.52	2.3
774	Ball Corp	–4.3	33¾	2.74	3.6
1070	Bally Manufacturing	–80.4	3⅞	0.16	0.0
779	Baltimore G&E	–4.8	32¼	2.82	6.5
173	Banc One	127.5	43	3.50	2.7
194	Bancorp Hawaii	115.3	43½	4.45	2.8
123	Bandag	159.4	113	6.34	1.1
1023	Bank of Boston	–57.2	11⅜	0.77	0.0
880	Bank of New York	–21.9	30⅜	3.80	5.0
149	BankAmerica	143.6	35⅝	5.22	3.4
495	Bankers Trust NY	35.9	61½	7.88	4.1
426	Banta	49.3	26⅞	2.53	2.2
439	CR Bard	46.9	26⅝	1.37	1.8
579	Barnes Group	22.1	37¼	3.55	3.8
759	Barnett Banks	–1.2	30⅞	2.60	4.3
NR	Baroid	NA	5¾	0.46	3.5
790	Bassett Furniture Ind	–6.6	35¼	2.69	2.8
126	Bausch & Lomb	155.6	50	2.89	1.4
258	Baxter International	89.0	36⅜	2.35	2.0
993	BayBanks	–50.3	18⅝	0.82	0.0
511	Bear Stearns Cos	33.2	14⅞	1.78	4.0
529	Bearings	29.8	19¼	1.50	3.3
781	Beckman Instruments	–5.0b	16¾	1.57	1.7
566	Becton Dickinson	23.8	61⅞	5.41	1.9
509	Bell Atlantic	33.3	45	3.66	5.6
958	Bell Industries	–42.9	9¾	0.72	4.1
580	BellSouth	22.1	47	3.44	5.9

Note: Except as indicated, price changes are from Dec. 31, 1986 to Nov. 20, 1991. NR: Not ranked because of merger, spinoff, reorganization, new issue or conversion to stock company.
a: Four-year price change. b: Three-year price change. c: Does not reflect special cash dividend paid. NA: Not available.
Sources: Forbes; Media General; Institutional Brokers Estimate System, from IBES, Inc., via Lotus One Source.

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
680	AH Belo	9.3	27⅞	1.23	1.9
119	Bemis	162.8	37⅛	2.33	2.3
725	Beneficial Corp	2.9	57⅛	6.58	4.6
208	Bergen Brunswig	108.9	20⅛	1.62	2.0
403	WR Berkley	54.3	27	3.07	1.2
91	Berkshire Hathaway	195.2	8325	327.50	0.0
205	Best Buy Co	110.8	33⅜	1.52	0.0
248	Bethlehem Steel	96.0	12¼	1.57	3.3
103	Betz Laboratories	179.5	56¼	2.68	2.2
996	Beverly Enterprises	–51.1	8	0.59	0.0
686	Big B	8.6	12⅝	1.10	1.3
449	Bindley Western Inds	44.4	17⅞	1.32	0.3
393	Birmingham Steel	56.3	18¾	1.55	2.7
766	Black & Decker	–2.3	15⅞	1.36	2.5
404	Blair	54.3	45⅛	4.00	4.9
84	H&R Block	208.9	34¾	1.78	2.5
160	Block Drug	137.5	55⅞	NA	1.6
3	Blockbuster	1413.6	11⅛	0.75	0.0
1011	Blount	–53.1	5¾	NA	7.8
548	Boatmen's Bancshs	26.7	44½	4.44	4.9
415	Bob Evans Farms	51.6	20⅛	1.30	1.4
242	Boeing	97.5	44⅞	4.93	2.2
924	Boise Cascade	–33.8	23¾	–0.53	6.4
525	Borden	30.1	30½	2.60	3.7
824	Boston Edison	–11.7	22¾	2.06	6.9
929	Bowater	–34.2	20	1.26	6.0
655	Briggs & Stratton	12.8	39¾	3.09	4.0
34	Brinker Intl	336.8	45⅝	1.64	0.0
246	Bristol-Myers Squibb	97.0	81⅜	4.73	2.9
351	British Petroleum	64.7	71⅝	4.73	6.8
NR	Broad	NA	15¾	2.28	1.3
117	Broken Hill	164.0	46½	2.96	2.7
906	Brooke Group	–28.3a	5⅜	0.51	10.4
539	Brooklyn Union Gas	28.3	29½	2.46	6.4
293	Brown-Forman	78.5	72⅛	6.22	3.1
888	Brown Group	–23.6	26⅜	2.38	6.1
874	Browning-Ferris Inds	–21.2	17⅝	1.36	3.9
303	Bruno's	75.2	13¼	0.82	1.5
916	Brunswick	–32.8	11⅜	0.98	3.9
592	Burlington Coat	20.3	19¼	1.64	0.0
389	Burlington Northern	56.8b	36¼	3.24	3.3
588	Burlington Resources	21.1b	39½	1.79	1.8
1031	Butler Manufacturing	–61.0c	11½	0.74	0.0
311	Cablevision Systems	72.8	32⅝	–13.31	0.0
721	Cabot	3.3	31	2.91	3.4
360	Caesars World	62.5	30⅞	2.36	0.0
NR	Caldor	NA	14½	2.23	0.0
1104	CalFed	–95.9	1⅜	0.63	0.0
785	CalMat	–5.8	19⅛	1.51	3.3
133	Campbell Soup	152.6	36	3.83	1.6
613	C&S/Sovran	17.9	28⅞	2.43	5.4
428	Capital Cities/ABC	49.2	400	27.47	0.1
361	Capital Holding	62.4	49¾	6.42	2.4
40	Cardinal Distribution	319.6	30⅝	1.54	0.3
456	Carl Karcher	42.2	8	0.94	1.0
553	Carlisle Cos	26.4	37¾	3.13	3.4
277	Carnival Cruise Lines	83.3a	22	1.98	2.4
977	Carolina Freight	–45.4	19⅛	1.46	3.1
550	Carolina Power & Lt	26.5	48⅞	4.39	6.2
396	Carpenter Technology	56.0	48⅜	3.96	5.0
1076	Carter Hawley Hale	–82.4a	1½	0.12	0.0
118	Carter-Wallace	164.0	99	4.30	1.0
745	Casey's General Store	0.0	14⅝	1.00	0.8
464	AM Castle & Co	41.5	10	1.13	4.0
714	Caterpillar	4.4	41⅞	2.39	2.9
420	CBI Industries	50.0	28⅞	1.96	1.7

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
667	CBS	11.0	141	10.15	0.7
662	CDI	12.0	6¾	0.52	0.0
287	Centel	80.8	30	0.73	2.9
854	Centerior Energy	–17.0	18⅞	1.81	8.5
597	Centex	19.6	37⅜	3.19	1.1
433	Central & So West	48.2	50¾	4.16	5.8
813	Central Hudson G&E	–9.5	27¼	2.59	7.0
694	Central Maine Power	7.4	20	1.86	7.8
NR	Central Newspapers	NA	19½	1.13	2.1
521	Central Steel & Wire	30.4	600	NA	2.8
867	Champion Intl	–20.3	24½	1.01	0.8
713	Charming Shoppes	4.4	20¾	1.27	0.6
288	Charter	80.6	7	0.81	0.7
1004	Chase Manhattan	–52.3	17	3.08	7.1
889	Chemed	–23.7	25⅜	1.26	7.9
978	Chemical Banking	–45.6	23	3.30	4.3
562	Chesapeake	24.9	21	1.41	3.4
413	Chevron	51.8	68⅞	5.33	4.8
1095	Child World	–93.4	⅞	1.57	0.0
55	Chiquita Brands Intl	267.7	40¾	2.93	1.5
1012	Chrysler	–53.4	11½	0.63	5.2
179	Chubb	120.7	65⅜	6.44	2.3
175	Church & Dwight	126.2	29⅛	1.46	1.2
783	Cigna	–5.2	52⅛	5.53	5.8
804	CILcorp	–8.1	35½	3.06	6.9
241	Cincinnati Bell	97.6	20¼	1.12	4.0
264	Cincinnati Financial	87.2	111	9.34	2.5
457	Cincinnati G&E	42.3	37⅞	3.60	6.5
1034	Cincinnati Milacron	–62.3	7½	0.66	4.8
780	Cipsco	–4.9	26⅝	2.20	7.1
1103	Circle K	–95.7	¾	NA	0.0
467	Circuit City Stores	41.2	21⅝	1.82	0.5
59	Circus Circus	260.8	32¼	2.28	0.0
1028	Citicorp	–60.4	10½	1.09	0.0
583	Clark Equipment	21.5	24	0.92	0.0
423	Clorox	49.6	37⅞	2.88	4.1
654	CMS Energy	12.8	17⅝	2.08	2.7
344	CNA Financial	66.0	89¼	5.67	0.0
1030	Coachmen Industries	–60.6	4⅞	0.50	1.6
1024	Coast Savings Finl	–57.8	5⅜	1.52	0.0
255	Coastal Corp	92.1	29⅞	2.70	1.3
62	Coca-Cola	252.3	66½	2.86	1.4
956	Coca-Cola Bottling	–42.3	18¾	0.44	4.7
808	Coca-Cola Enterprises	–8.8	13	0.44	0.4
247	Colgate-Palmolive	96.9	40¼	2.91	2.6
1027	Columbia Gas System	–59.4	18⅜	2.25	0.0
199	Comcast	113.5	16¼	–0.99	0.9
466	Comdisco	41.3	22¼	2.52	1.3
156	Comerica	139.2	50½	5.38	3.7
286	Commerce Bcshs	81.2	31¼	3.35	2.4
965	Commerce Clearing	–43.4	17¼	0.97	4.1
1044	Commercial Federal	–67.9	5⅜	2.50	0.0
542	Commercial Intertech	27.6	16¾	NA	4.1
357	Commercial Metals	63.0	19¼	1.35	2.7
594	Commonwealth Ed	20.3	40¾	3.84	7.4
788	Commonwealth Energy	–6.3	35⅝	3.30	8.2
893	Commtron	–24.6	6½	1.00	0.0
584	Comsat	21.3	34⅛	3.20	4.1
111	Compaq Computer	167.5	25¾	2.94	0.0
493	Computer Associates	36.4	9⅜	1.04	1.1
376	Computer Sciences	59.2	67¼	4.97	0.0
167	ConAgra	133.2	29⅝	2.88	1.8
304	Conner Peripherals	74.6b	13¾	1.94	0.0
8	Conseco	955.6	59⅜	5.41	0.3
704	Consolidated Edison	5.6	24⅞	2.40	7.5
1025	Consol Freightways	–57.9	12⅝	1.04	0.0

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Sources: Forbes; Media General; Institutional Brokers Estimate System, from IBES, Inc., via Lotus One Source.

WHO'S WHERE IN THE STOCK MARKET

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
535	Consol Natural Gas	28.7	42	2.66	4.5
476	Consolidated Papers	39.8	36	2.45	3.6
116	Consolidated Rail	164.3a	73	6.81	2.5
864	Consolidated Stores	–19.4	10⅞	0.56	0.0
437	Constar Intl	47.1	32	2.53	2.0
1105	Continental Airlines	–95.9	1⅜	–0.98	0.0
1017	Continental Bank	–55.2	9⅝	1.75	6.2
964	Continental Corp	–43.3	25⅜	0.26	10.2
1038	Control Data	–64.5	9⅜	0.97	0.0
150	Cooper Industries	142.9	50¼	3.53	2.3
18	Cooper Tire & Rubber	477.1	37⅞	2.11	0.7
857	Adolph Coors	–18.2	19⅝	1.61	2.5
565	CoreStates Financial	23.8	44¼	4.59	4.5
110	Corning	167.9	73½	3.78	1.4
15	Costco Wholesale	587.8	46	1.40	0.0
220	CPC International	103.5	80⅝	5.89	2.7
474	Crane	40.3b	21¾	2.01	3.4
75	Crawford & Co	223.7	27¼	1.20	1.3
960	Cray Research	–43.0	46⅛	4.49	0.0
935	Crestar Financial	–37.1	18	2.09	4.4
278	Crown Central Pet	82.7	23¾	3.18	3.4
137	Crown Cork & Seal	150.9	86¼	5.19	0.0
291	CRSS	80.0	8⅝	0.55	1.4
811	Crystal Brands	–9.2	16⅛	2.31	1.2
297	CSX	76.8	51½	4.65	3.0
NR	CUC International	NA	26	1.23	0.0
1003	Culbro	–52.3	18⅜	NA	4.4
910	Cummins Engine	–30.4	46¾	2.25	0.4
807	Curtice Burns Foods	–8.7	11⅞	0.85	5.4
878	Cyclops Industries	–21.8a	19¾	NA	0.0
252	Cyprus Minerals	93.9	21	1.84	3.8
839	Dairy Mart	–13.7	7¼	NA	0.0
886	Dana	–23.3	26¾	1.99	6.0
87	Danaher	205.0	18⅞	1.74	0.0
1016	Dart Group	–55.0	67	NA	0.2
991	Data General	–49.8	14⅞	2.15	0.0
1009	Datapoint	–52.9	3	NA	0.0
477	Dayton Hudson	39.7	59⅜	5.95	2.4
362	Dean Foods	62.2	30	2.21	1.9
190	Deere & Co	116.9	49⅝	3.37	4.0
745	Delchamps	0.0	21¾	1.20	2.0
183	Dell Computer	118.8b	21⅞	2.32	0.0
792	Delmarva Power & Lt	–6.8	20½	1.74	7.5
577	Delta Air Lines	22.3	58⅞	2.43	2.0
83	Delta Woodside Inds	208.9a	21⅝	2.01	1.4
703	Deluxe	5.7	37¼	2.53	3.4
218	Detroit Edison	103.8	33⅝	3.53	5.6
820	Dexter	–10.7	19⅞	1.70	4.4
488	Dial	37.5	42⅝	3.42	3.3
158	Diamond Shamrock	138.6a	20⅞	2.58	2.5
32	Dibrell Brothers	360.0	28¾	1.83	1.7
697	Diebold	6.8	48⅞	2.72	3.3
954	Digital Equipment	–42.2	60½	4.12	0.0
74	Dillard Dept Stores	224.8	123	7.18	0.2
1068	Dime Savings Bank FSB	–80.0	3⅝	0.08	0.0
142	Walt Disney	149.0	107⅜	6.29	0.7
1019	Dixie Yarns	–56.3	7⅞	0.68	2.5
266	Dole	86.4	35⅞	3.17	1.1
310	Dollar General	72.9	20⅝	1.10	1.0
976	Dominion Bankshares	–45.1	10½	1.01	4.2
544	Dominion Resources	27.4	56⅜	4.55	6.3
196	Donaldson	114.8	36⅜	2.79	1.5
400	RR Donnelley & Sons	55.1	47½	3.21	2.1
852	Douglas & Lomason	–16.9	16	NA	0.6
382	Dover	58.4	35¼	2.57	2.4
526	Dow Chemical	30.1	50¾	3.68	5.1
946	Dow Jones	–39.7	23½	1.31	3.2
472	DPL	40.4	23⅞	2.05	6.8
162	DQE	136.7	29	2.53	5.0
1033	Dravo	–61.9	7	1.01	0.0
215	Dresser Industries	103.9	19¾	1.46	3.0
876	Drug Emporium	–21.5b	6⅜	0.65	1.9
850	DSC Communications	–16.3	4⅞	0.23	0.0
364	El du Pont de Nemours	61.6	45¼	3.58	3.7
495	Duke Power	35.9	30¾	2.67	5.6
819	Dun & Bradstreet	–10.5	47⅛	3.14	4.6
NR	Duracell Intl	NA	26¾	1.31	0.0
125	Durr-Fillauer	155.6	22¾	1.63	1.2
536	DWG	28.6	3⅜	NA	0.0
955	Dynatech	–42.3	17¾	1.45	0.0
573	E-Systems	23.0	36¾	3.77	2.0
NR	Eagle Food Centers	NA	7¼	1.03	0.0
1106	Eagle-Picher Inds	–96.5	1¼	NA	0.0
776	Eastern Enterprises	–4.5	26¾	2.59	5.2
734	Eastman Kodak	1.6	46½	4.36	4.3
647	Eaton	13.6	55⅞	4.63	3.9
959	Echlin	–42.9	11⅛	0.88	6.3
571	Ecolab	23.4	28⅜	2.21	2.5
261	Edison Bros Stores	88.2	31⅞	3.66	3.5
234	AG Edwards	99.4	31⅛	2.95	1.8
411	EG&G	52.2	43	3.14	2.1
434	Egghead	47.8b	17	0.77	0.0
1064	El Paso Electric	–77.3	4¼	0.61	0.0
NR	Eljer Industries	NA	7⅜	1.50	0.0
332	Emerson Electric	68.4	47	3.12	2.9
1058	Emerson Radio	–75.0	2⅜	0.26	0.0
343	Engelhard	66.1	31	2.20	2.6
276	Enron	83.5	36¼	4.31	3.6
784	Enserch	–5.4	15⅜	1.03	5.2
200	Entergy	113.3	28	2.58	5.0
515	Equifax	32.6	14½	1.14	3.6
319	Equitable of Iowa	70.7	39¼	6.52	3.3
688	Equitable Resources	8.2	39½	3.20	3.9
919	ERLY Industries	–33.3	5⅛	NA	0.0
NR	ESCO Electronics	NA	6⅝	0.14	0.0
494	Ethyl	36.0	25½	2.07	2.4
941	Everex Systems	–38.5a	4	0.23	0.0
340	Exxon	66.5	58⅜	4.59	4.6
875	Fairchild	–21.4	5½	–1.15	0.0
307	Family Dollar Stores	73.1	29	1.66	1.5
530	Fay's	29.8	9¼	0.98	2.2
951	Federal Express	–41.6	36⅞	3.31	0.0
NR	Federal Home Loan Mtg	NA	99⅜	10.43	2.0
872	Federal-Mogul	–20.6	15⅞	1.09	5.8
41	Federal Natl Mortgage	318.7	56⅞	5.71	2.1
272	Federal Paper Board	84.7	25¾	2.67	3.9
42	Federal Signal	306.5	26⅞	1.56	2.0
124	Ferro	156.7	33⅜	2.44	1.9
108	FHP International	174.3	12	1.13	0.0
1020	Fieldcrest Cannon	–56.3	14⅝	1.10	0.0
86	Fifth Third Bancorp	205.4	61¾	3.92	1.9
653	Figgie Intl	12.8	20½	1.97	2.4
410	Fina	52.5	65¾	NA	4.9
1107	Finevest Foods	–96.6b	¼	NA	0.0
931	First American Corp	–36.4	16⅜	1.34	0.0
822	First American Finl	–11.3	10¾	0.80	3.7
800	First Bank System	–7.5	23⅛	2.34	3.5
NR	First Brands	NA	27⅝	2.74	0.1
845	First Chicago	–15.3	24¼	3.43	8.2
1099	First City Bncp Texas	–94.8b	1⅜	–6.75	0.0
847	First Fidelity Bncp	–15.4	29⅜	3.47	4.1
96	First Financial Mgmt	186.0	43⅛	3.42	0.2

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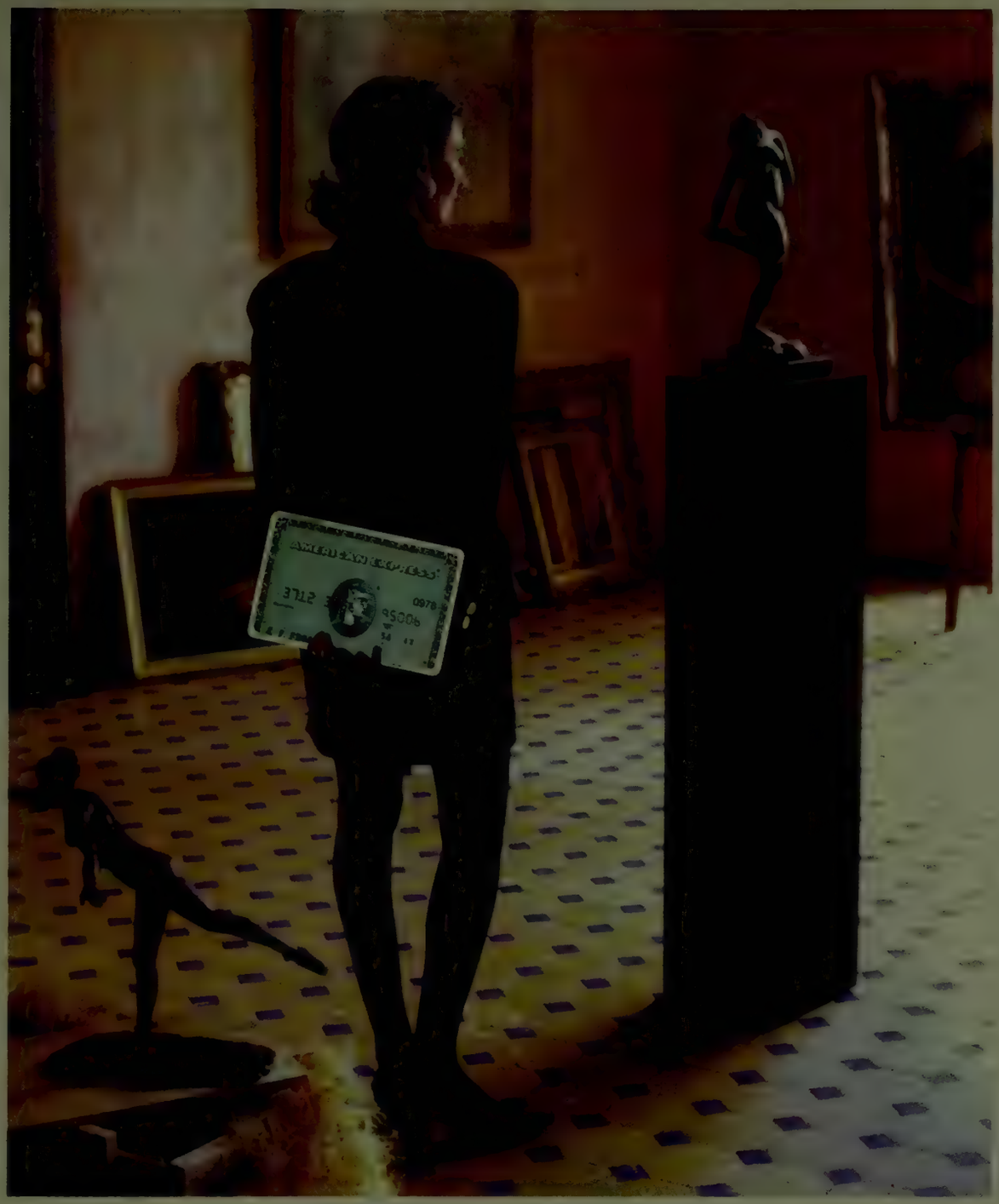
a: Four-year price change. b: Three-year price change. c: Does not reflect special cash dividend paid. NA: Not available.
Sources: Forbes; Media General; Institutional Brokers Estimate System, from IBES, Inc., via Lotus One Source.



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WHO'S WHERE IN THE STOCK MARKET

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
948	First Interstate Bncp	–40.9	30¾	2.94	0.0
453	First Mississippi	43.1	9⅛	0.48	3.3
503	First of America Bank	34.5	28¼	3.12	4.5
314	First Security	71.4	26	2.87	3.5
603	First Tennessee Natl	19.1	36⅝	4.27	4.9
620	First Union	17.1	28¼	3.12	4.0
296	Firstar	77.1	42½	4.68	3.4
962	FirstFed Michigan	–43.2	13	2.40	0.0
NR	Fisher-Price	NA	30⅝	1.66	0.0
786	Fleet/Norstar Finl	–5.9	21⅞	1.66	3.7
513	Fleetwood Enterprises	33.0	33¾	2.71	2.6
706	Fleming Cos	5.4	36½	3.60	3.3
652	Florida Progress	12.9	44¾	3.58	6.1
843	Florida Rock Inds	–15.0	21¼	NA	2.4
840	Flowers Industries	–13.7	13⅞	0.95	5.0
79	Fluor	218.5	36⅝	2.24	0.9
282	FMC	82.0	46⅞	5.03	0.0
77	Food Lion	222.4	19¾	0.77	0.8
728	Foodarama Supermkts	2.3	16½	NA	0.0
836	Ford Motor	–13.3	24⅜	1.62	6.6
981	Foremost Corp of Amer	–46.4c	20½	2.07	5.3
302	Foster Wheeler	75.2	23	1.55	2.3
NR	Foundation Health	NA	26	2.37	0.0
673	FPL Group	10.3	34⅞	2.82	6.9
174	Freeport-McMoRan	127.4	41½	1.97	6.0
431	Fremont General	48.8	24	3.85	3.7
NR	Fruehauf Trailer	NA	11	1.67	0.0
31	Fruit of the Loom	365.0a	23¼	1.77	0.0
193	HB Fuller	115.4	54⅛	3.38	1.1
945	Fuqua Industries	–39.6	13¾	1.13	2.6
732	Gannett	1.9	36¾	2.46	3.4
20	Gap	466.4	50⅝	1.80	0.6
401	GATX	54.6	26	3.49	4.6
1066	Gaylord Container	–78.6b	3⅛	–1.00	0.0
250	Geico	95.2	192¼	13.60	1.2
1018	GenCorp	–55.9	10⅞	1.07	5.5
851	General Cinema	–16.4	18½	0.98	2.8
901	General Dynamics	–27.5	49⅛	6.58	2.0
397	General Electric	55.8	67	5.69	3.0
980	General Host	–46.2	7⅛	NA	4.8
88	General Mills	204.3	65⅝	3.49	2.3
794	General Motors	–7.2	30⅝	1.89	5.2
37	General Motors EDS	333.1	53⅞	2.67	1.2
861	GM Hughes Electronics	–19.1	15⅝	1.68	4.6
182	General Public Utils	118.8	24¾	2.60	6.1
362	General Re	62.2	90	7.07	1.9
658	General Signal	12.4	49¾	4.02	3.6
356	Genesco	63.0	5½	0.55	0.0
NR	Geneva Steel	NA	19	2.28	0.0
917	Genlyte Group	–32.9b	5⅞	0.67	0.0
186	Genovese Drug Stores	118.2	14⅛	1.20	1.7
429	Genuine Parts	49.1	42⅞	2.94	3.4
NR	Georgia Gulf	NA	21½	2.24	0.0
532	Georgia-Pacific	29.4	47⅞	2.59	3.3
73	Gerber Products	225.1	67¼	4.31	2.1
856	Getty Petroleum	–18.2	13⅜	NA	2.1
318	Giant Food	71.0	21⅜	1.97	3.1
420	Gibson Greetings	50.0	24	2.85	1.5
64	Gillette	247.2	42¾	2.29	1.5
891	Gitano Group	–24.4b	15⅞	1.81	0.0
184	PH Glatfelter	118.5	53¼	3.72	2.3
46	Glaxo Holdings	295.2	30⅜	1.23	2.2
1073	GlenFed	–82.0	4⅜	1.62	0.0
232	Golden West Finl	100.0	34⅞	4.02	0.6
801	BF Goodrich	–7.9	39¼	2.48	5.6
635	Goodyear	15.2	48¼	3.05	0.8
547	Goulds Pumps	27.1	20½	1.68	3.9
377	WR Grace	59.2	38½	2.81	3.6
229	WW Grainger	100.0	43½	2.74	1.4
NR	Granite Construction	NA	21¾	2.03	0.9
393	Great American Mgmt	56.3	25	NA	0.0
633	Great A&P Tea	15.4	27⅛	3.09	2.9
21	Great Lakes Chemical	465.3	101¾	6.06	0.6
865	Gt Western Financial	–20.0	14⅞	2.37	5.9
508	Grey Advertising	33.7	123	NA	2.4
1039	Grossman's	–64.5	2¾	0.50	0.0
834	Grow Group	–13.1	9⅝	NA	0.0
899	Grumman	–27.0	17⅞	2.61	5.6
368	GTE	61.2	31⅜	2.21	5.4
664	Guilford Mills	11.6	27¾	2.33	2.9
516	Gulf States Utils	32.2	9¾	0.85	0.0
1068	Hadson	–80.0	1⅛	NA	0.0
1062	Frank B Hall	–77.2	3¼	–0.03	0.0
522	Halliburton	30.3	31¾	1.98	3.1
554	Handleman	26.3	16	1.36	2.5
987	Handy & Harman	–48.7	10⅛	1.00	2.0
280	MA Hanna	82.4	23¼	1.98	2.8
139	Hannaford Bros	150.4	42¼	2.65	1.2
631	Hanover Insurance	15.7	36¾	2.24	1.2
323	Hanson	70.1	18½	1.95	7.2
12	Harley-Davidson	609.5	37¼	3.44	0.0
939	Harman International	–38.0	7¾	0.80	0.0
575	Harnischfeger Inds	22.7	18¼	1.95	2.2
312	Harper Group	72.7	28½	2.21	0.9
870	Harris Corp	–20.6	23⅝	2.43	4.4
685	Harsco	8.8	27⅞	3.10	4.7
191	Hartford Steam Boiler	116.4	51	3.10	3.9
1047	Hartmarx	–69.9	8⅛	0.63	7.4
309	Hasbro	73.1	33¾	2.60	0.7
632	Hawaiian Electric	15.5	36⅜	2.83	6.2
907	Hechinger	–28.4	12	1.00	0.5
263	HJ Heinz	87.7	38	2.56	2.8
146	Helene Curtis Inds	145.0	35⅝	2.32	0.6
NR	Henley Group	NA	23¾	NA	0.0
849	Hercules	–15.6	42¾	3.38	5.2
406	Hershey Foods	53.8	37⅞	2.71	2.6
644	Hewlett-Packard	14.0	47¾	4.06	1.0
999	Hexcel	–51.7	11¾	0.92	3.7
1071	Hibernia	–80.5	2⅞	0.25	0.0
1097	Highland Superstores	–94.3	1	NA	0.0
131	Hillenbrand Inds	154.2	59¼	2.72	1.0
NR	Hillhaven	NA	2¼	0.01	0.0
1081	Hills Dept Stores	–84.6a	1	NA	0.0
604	Hilton Hotels	19.0	40	2.37	3.0
61	Holly Corp	252.7c	28	4.00	2.1
NR	Holnam	NA	4	NA	0.0
2	Home Depot	1560.3	58⅝	1.49	0.2
1043	Home Shopping	–67.0	6⅛	0.40	0.0
1112	HomeFed	–98.1	½	–2.60	0.0
561	Homestake Mining	25.1	15⅞	0.13	1.3
251	HON Industries	94.6	18	1.18	2.0
505	Honda Motor	34.1	23	1.36	0.9
245	Honeywell	97.0	58¼	5.18	2.8
152	Geo A Hormel	140.9	20⅝	1.33	1.5
1072	Horn & Hardart	–80.6	2⅜	NA	0.0
827	Houghton Mifflin	–12.0	28⅜	1.84	2.7
793	Household Intl	–7.1	44⅜	6.46	5.1
650	Houston Industries	13.3	39⅜	3.20	7.5
520	Howell	31.3	10½	1.27	3.0
228	Hubbell	100.9	52½	3.36	3.0
970	Hudson Foods	–44.3	8½	0.79	1.4
57	Huffy	263.8	19	1.63	1.6

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a: Four-year price change. b: Three-year price change. c: Does not reflect special cash dividend paid. NA: Not available.
Sources: Forbes; Media General; Institutional Brokers Estimate System, from IBES, Inc., via Lotus One Source.

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
908	Hughes Supply	–28.4	10⅝	0.50	1.1
267	Humana	86.3	23¾	2.55	3.8
730	JB Hunt Transport	1.9	26¼	1.64	1.1
448	Huntington Bcshs	44.6	19	2.09	4.2
716	IBP	3.9a	13¼	1.07	4.5
NR	ICF Intl	NA	8¾	0.64	0.0
1077	ICH	–82.9	3⅜	0.88	0.0
608	IES Industries	18.7	27¾	2.28	7.6
NR	Illinois Central	NA	29	2.78	0.0
877	Illinois Power	–21.7	23	1.98	3.5
163	Illinois Tool Works	136.6	61⅜	3.84	1.4
657	IMC Fertilizer Group	12.5b	49⅝	4.55	2.2
51	Imcera Group	282.1	33¾	0.56	1.2
328	Imo Industries	68.8	11½	1.45	4.3
486	Imperial Chemical Ind	37.9	86⅞	6.68	5.8
239	Imperial Holly	97.7b	15⅝	2.35	3.1
568	INB Financial	23.5	31¼	3.10	3.8
112	Inco	167.0c	31⅜	1.97	3.2
737	Independent Insurance	1.4	17¾	2.44	5.0
202	Ingersoll-Rand	112.4	47⅜	3.71	2.8
745	Ingles Markets	0.0a	6⅞	0.74	3.2
707	Inland Steel Inds	5.3	19⅞	0.68	0.0
860	Inspiration Resource	–18.4	3⅞	0.57	0.0
115	Instrument Systems	164.7	5⅝	0.52	0.0
92	Intel	194.6	41¼	4.10	0.0
19	Intelligent Electron	474.2a	22¼	2.73	0.0
1096	Interco	–93.5b	¼	NA	0.0
702	Interface	5.8	9⅛	0.88	2.6
736	Intergraph	1.5	17¼	1.80	0.0
1089	Interlake	–88.7c	4⅜	0.29	0.0
868	IBM	–20.4	95½	8.47	5.1
154	Intl Flavors & Frags	140.3	89½	4.93	2.7
371	Intl Multifoods	60.8	26	2.24	3.1
273	International Paper	84.4	69¼	5.49	2.4
NR	Intl Specialty Prods	NA	12½	0.88	0.0
138	Interpublic Group	150.7	45¾	3.05	1.8
NR	Interstate Bakeries	NA	16⅝	1.52	2.6
350	InterTAN	64.7a	24½	1.82	0.0
677	Iowa-Illinois G&E	9.9	24⅜	2.15	7.0
517	Ipalco Enterprises	32.1	31⅞	2.73	5.9
534	Itel	29.0	17¼	0.69	0.0
744	ITT	0.2	53½	6.93	3.2
7	Jacobs Engineering	1073.0	24	1.04	0.0
952	James River Corp Va	–41.7	19¾	1.55	3.0
1041	Jamesway	–66.9	3¾	0.06	0.0
367	Jefferson-Pilot	61.3	54⅝	4.53	3.1
95	Johnson & Johnson	187.2	94¼	5.12	1.7
618	Johnson Controls	17.5	33⅝	2.63	3.7
326	Jostens	69.4	30½	1.78	2.8
262	JWP	87.8	14½	1.76	0.0
950	Kaman	–41.3	8¼	1.14	5.3
378	Kansas City P&L	58.9	44½	3.62	6.3
676	Kansas City Southern	10.1	52	4.55	2.1
450	Kansas Gas & Elec	44.3	33	2.12	5.2
741	Kansas Power & Light	0.7	27⅜	2.45	6.8
504	Kaufman & Broad Home	34.5c	14⅝	1.48	2.1
235	Kellogg	99.0	51½	5.69	2.2
756	Kellwood	–1.1	23⅜	2.05	3.4
611	Kelly Services	18.1	30⅞	2.08	2.3
446	Kemper	45.0	36¼	4.67	2.5
569	Kennametal	23.4	29⅝	2.67	3.9
994	Kentucky Central Life	–50.7	9	1.57	4.9
581	Kentucky Utilities	22.1	25¼	2.14	5.9
938	Kerr Glass Mfg	–37.9	8	–0.10	0.0
478	Kerr-McGee	39.6	39¼	2.74	3.9
285	KeyCorp	81.4	40⅛	4.40	3.6

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
185	Keystone Intl	118.2	25¾	1.44	2.5
509	Kimball International	33.3	20	1.65	3.4
168	Kimberly-Clark	132.9	46½	6.83	3.5
99	King World Prods	183.9	26½	2.40	0.0
475	Kmart	40.2	41	4.38	4.3
519	KN Energy	31.3	27¼	2.25	4.6
757	Knight-Ridder	–1.1	46⅜	3.07	3.0
237	Kroger	98.6b	17⅝	1.72	0.0
26	LA Gear	421.1	10¾	0.77	0.0
445	La-Z-Boy Chair	45.2	22⅞	1.93	2.6
745	Laclede Gas	0.0	36	NA	6.7
1005	LADD Furniture	–52.8	7⅜	0.50	1.6
559	Lafarge	25.3	11¾	0.69	2.6
268	Lancaster Colony	85.3	32	2.20	2.5
665	Lance	11.4	22	1.41	4.0
197	Lands' End	114.4	26	1.45	0.8
490	Leggett & Platt	37.4	35⅜	2.66	2.5
374	Lennar	59.5	29½	2.82	0.8
417	Leslie Fay Cos	51.1	17¾	2.06	0.0
210	Leucadia National	107.4	35¼	4.54	0.0
591	LG&E Energy	20.7	45⅛	3.65	6.5
587	Liberty Corp	21.1	22¼	3.87	2.2
487	Lifetime	37.5	24¾	2.38	0.0
223	Eli Lilly	102.0	75	5.27	2.7
373	Limited	60.6	25½	1.53	1.1
461	Lincoln Electric	41.6	250	NA	4.6
656	Lincoln National	12.7	52¼	4.94	5.6
1092	Lionel	–92.4	½	NA	0.0
617	Litton Industries	17.6	87	8.06	0.0
835	LIVE Entertainment	–13.2	9⅝	1.25	0.0
316	Liz Claiborne	71.3	36⅝	3.05	1.0
841	Lockheed	–14.0	43⅛	5.59	4.6
69	Loctite	232.6	39½	2.22	1.7
298	Loews	76.4	102¾	12.03	1.0
926	Lone Star Tech	–34.0	4⅛	1.19	0.0
159	Long Island Lighting	138.3	24⅛	2.42	7.0
598	Longs Drug Stores	19.5	35¼	3.32	3.1
334	Longview Fibre	67.8	12½	0.89	4.2
799	Loral	–7.5	35½	4.44	2.7
482	Lotus Development	39.1	24	2.28	0.0
498	Louisiana Land	35.8	37	1.60	2.7
527	Louisiana-Pacific	29.9	38⅝	3.06	2.8
682	Lowe's Cos	9.1	28⅜	1.98	2.0
912	LSI Logic	–31.4	7⅜	0.55	0.0
941	LTV	–38.5	1	NA	0.0
354	Lubrizol	64.3	51¾	3.93	3.1
47	Lukens	294.1	38¾	4.96	3.8
NR	Lyondell Petrochem	NA	22⅞	2.30	7.9
998	M/A-Com	–51.5	6⅛	0.69	0.0
831	Magma Copper	–12.5a	6⅛	1.17	0.0
NR	MagneTek	NA	12⅜	1.50	0.0
1108	MAI Systems	–96.9	⅜	–1.00	0.0
593	Manor Care	20.3	20	1.34	0.7
963	Manufacturers Hanover	–43.2	25⅝	3.41	7.3
212	Manufacturers Natl	105.8	40⅛	4.03	3.3
986	Manville	–47.5	7⅞	0.63	0.0
217	Mapco	103.8	60⅜	5.26	1.7
358	Marion Merrell Dow	62.9	30¾	2.36	3.0
148	Mark IV Industries	144.5	17⅛	2.28	0.7
968	Marriott	–44.0	16¼	1.15	1.7
623	Marsh & McLennan Cos	16.5	70¾	4.56	3.7
292	Marsh Supermarkets	78.9	17	2.15	2.6
275	Marshall & Ilsley	83.6	50½	4.48	2.6
147	Marshall Industries	145.0	24½	2.75	0.0
480	Martin Marietta	39.5	53⅞	7.57	2.8
890	Masco	–24.1	22	1.49	2.7

Note: Except as indicated, price changes are from Dec. 31, 1986 to Nov. 20, 1991. NR: Not ranked because of merger, spinoff, reorganization, new issue or conversion to stock company.
a: Four-year price change. b: Three-year price change. c: Does not reflect special cash dividend paid. NA: Not available.
Sources: Forbes; Media General; Institutional Brokers Estimate System, from IBES, Inc., via Lotus One Source.

WHO'S WHERE IN THE STOCK MARKET

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
1022	Masco Industries	–57.1	4⅞	0.48	0.0
45	Mattel	301.5	26½	2.11	0.8
1052	Maxtor	–71.9	4⅞	0.03	0.0
669	Maxus Energy	10.7a	7¾	0.06	0.0
68	Maxxam	236.0	31½	18.00	0.0
430	May Dept Stores	48.9	52⅞	4.66	3.1
949	Maytag	–41.3	13⅞	1.15	3.6
NR	MBNA	NA	29⅝	3.50	5.4
338	McCaw Cellular	67.4a	27	–1.85	0.0
679	McClatchy Newspapers	9.3b	16⅛	1.04	1.2
39	McCormick & Co	324.1	20⅞	2.25	1.4
866	McDermott Intl	–20.1	17⅜	1.13	5.8
346	McDonald's	65.7	33⅝	2.67	1.1
740	McDonnell Douglas	0.9	71⅞	8.66	1.9
771	McGraw-Hill	–3.7	52⅝	3.61	4.2
38	MCI Communications	328.0	26¾	2.40	0.4
648	McKesson	13.4	36	2.87	4.4
549	MCN	26.6b	23½	2.10	7.0
1090	MDC Holdings	–88.7	1½	NA	0.0
640	Mead	14.4	31¼	2.17	3.2
28	Medco Containment	411.5	66½	1.43	0.1
789	Media General	–6.5	19⅞	0.79	2.2
49	Medtronic	287.6	74½	3.14	0.6
940	Mellon Bank	–38.4	34⅛	4.59	4.1
405	Melville	54.2	41⅝	4.13	3.5
556	Mercantile Bancorp	25.9	35¼	4.17	4.0
772	Mercantile Stores	–3.7	36⅞	3.75	2.8
63	Merck	251.2	145	6.43	1.7
299	Mercury General	76.3	30⅝	4.29	2.6
885	Meredith	–23.3	25⅛	1.31	2.5
718	Meridian Bancorp	3.6	21⅞	2.34	5.5
574	Merisel	22.9b	7⅜	0.61	0.0
1094	Meritor Savings Bank	–92.9	⅝	–1.00	0.0
481	Merrill Lynch	39.4	50⅞	5.46	2.0
24	Merry-Go-Round	453.6	12½	0.98	0.4
330	Fred Meyer	68.6	22⅛	1.98	0.0
339	Michael Foods	66.6a	14⅝	1.28	1.4
641	Michigan National	14.3	38	3.80	5.3
295	MicroAge	77.1a	7¾	1.29	0.0
100	Micron Technology	183.3	12¾	1.40	0.4
6	Microsoft	1100.0	96½	3.41	0.0
1087	Midlantic	–86.4	5½	–1.28	0.0
777	Midwest Resources	–4.7	19¾	1.71	7.9
863	Herman Miller	–19.4	16⅛	1.78	3.2
692	Millipore	7.5	33⅞	2.53	1.4
512	Mine Safety Appliance	33.1	45¼	NA	1.9
418	Minn Mining & Mfg	50.3	87⅝	5.95	3.6
745	Minnesota Power & Lt	0.0	29⅝	2.32	6.4
128	Mirage	155.4	23⅝	2.56	0.0
436	Mitchell Energy	47.3	16¾	1.24	2.4
1109	MLX	–97.2	⅛	NA	0.0
1067	MNC Financial	–78.8	4¼	–1.04	0.0
349	Mobil	64.8	66⅛	5.12	4.8
260	Modine Manufacturing	88.5	24½	2.02	3.1
333	Molex	68.0	31¼	1.51	0.1
345	Monsanto	66.0	63½	5.86	3.3
555	Montana Power	26.0	24¼	2.09	6.1
742	Moore Corp	0.6	20¾	1.80	4.5
432	JP Morgan & Co	48.5	61¼	5.59	3.2
1029	Morgan Products	–60.4	7⅛	0.48	0.0
127	Morgan Stanley	155.5	55¼	5.22	1.5
455	Morrison	42.7	22⅞	2.16	2.8
802	Morrison Knudsen	–8.0	38⅞	3.42	3.8
NR	Morton International	NA	50⅝	3.09	1.9
320	Motorola	70.5	60¾	4.32	1.3

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
407	Multimedia	53.7	21	1.74	0.0
501	Murphy Oil	35.0	33¾	2.14	3.6
370	Nacco Industries	61.1	42½	4.12	1.5
144	Nalco Chemical	146.6	33¾	2.01	2.5
745	Nash Finch	0.0	17¾	1.97	3.9
803	Nashua	–8.0	21½	2.56	3.3
666	National City	11.2	34	4.00	5.5
1075	Natl Convenience	–82.2	1⅝	–0.64	0.0
1007	National Education	–52.8	8⅜	0.47	0.0
558	National Fuel Gas	25.4	24⅜	1.96	6.0
93	National Health Labs	192.2b	23⅜	1.25	1.2
684	National Intergroup	8.9	15¼	1.80	0.0
605	National Medical	18.9	13⅜	1.92	3.4
1001	Natl Semiconductor	–51.8	5⅛	0.69	0.0
798	National Service	–7.3	20⅝	1.60	4.7
974	Navistar Intl	–44.7	2⅝	0.11	0.0
192	NBD Bancorp	116.3	42	4.06	3.3
195	NCH	115.2	63¾	5.70	1.6
352	NCNB	64.5	35⅜	4.37	4.2
887	Neiman Marcus Group	–23.5a	11⅜	0.32	1.8
669	New England Electric	10.7	31	2.75	6.7
1102	New Valley	–95.7	⅛	NA	0.0
842	NY State E&G	–14.7	26¾	2.55	7.9
985	New York Times	–47.2	18¾	0.70	3.0
17	Newell Co	514.8	41½	2.09	1.4
563	Newmont Mining	24.4c	38¼	1.62	1.6
723	Niagara Mohawk Power	3.0	17¼	1.66	3.7
353	Nicor	64.4	45	4.18	5.0
10	NIKE	868.1	56⅞	4.90	1.0
188	Nipsco Industries	117.0	25½	2.07	4.5
440	Nissan Motor	46.3	9⅞	0.38	2.0
975	NL Industries	–45.0b	10⅜	NA	5.8
933	Noland	–36.5	13½	NA	3.4
341	Nordstrom	66.5	34¾	2.19	0.9
211	Norfolk Southern	105.9	58	4.25	2.8
1088	Nortek	–87.5	1⅝	NA	0.0
1084	Northeast Federal	–85.2	2¼	NA	0.0
782	Northeast Utilities	–5.2	23	2.00	7.7
606	No States Power	18.8	41	3.15	5.9
105	Northern Telecom	177.5	43⅞	2.29	0.7
169	Northern Trust	132.6	45½	3.82	2.1
966	Northrop	–43.6	22⅛	4.15	5.4
145	Norwest	146.4	29⅞	3.20	3.3
4	Novell	1356.2	46⅞	1.42	0.0
120	Nucor	162.7	80⅛	3.92	0.6
769	NWNL	–3.2	30	5.82	4.7
619	Nynex	17.2	75⅛	6.15	6.1
900	Occidental Petroleum	–27.3	20	1.59	5.0
53	Office Depot	273.8b	39⅞	1.27	0.0
816	Ogden	–10.0	18	1.49	6.9
615	Ohio Casualty	17.7	45¾	4.72	5.4
731	Ohio Edison	1.9	19⅞	1.78	7.5
614	Oklahoma G&E	17.8	40⅝	3.33	6.4
392	Old Kent Financial	56.3	34	3.55	3.6
315	Old Republic Intl	71.4	33½	4.91	2.2
681	Olin	9.1	44¾	4.37	4.9
284	Olsten	81.6	23	1.34	1.0
422	Omnicom Group	49.7	30⅛	2.37	3.7
463	Oneida	41.5	12¾	1.24	3.8
805	Oneok	–8.2	15⅜	1.39	5.5
22	Oracle Systems	463.8	14⅝	0.63	0.0
683	Orange & Rockland	9.0	38	3.29	6.3
621	Orion Capital	17.1	31¾	4.71	2.9
1065	Orion Pictures	–78.4	2⅝	0.00	0.0
720	Oryx Energy	3.4b	26¾	0.69	4.5

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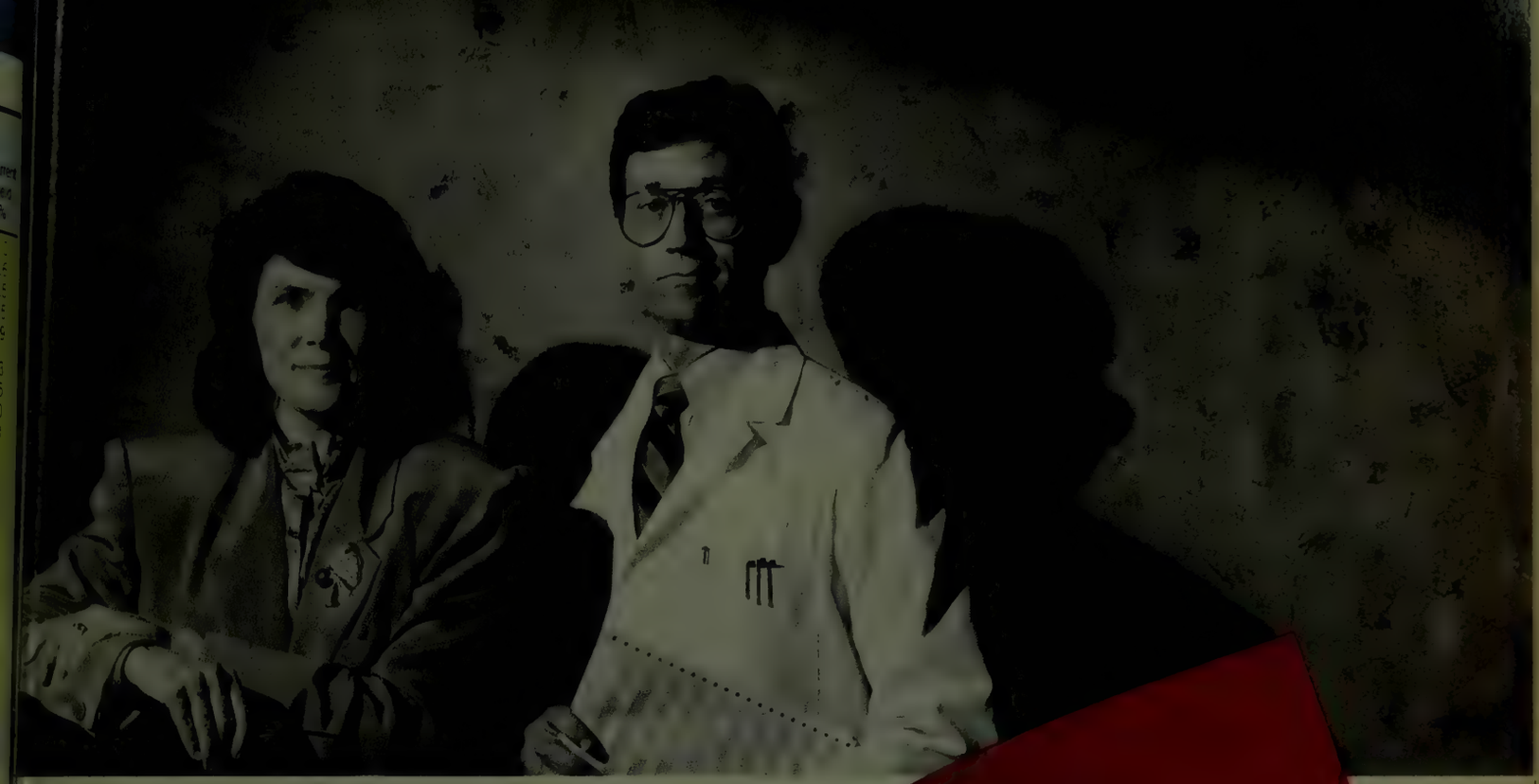

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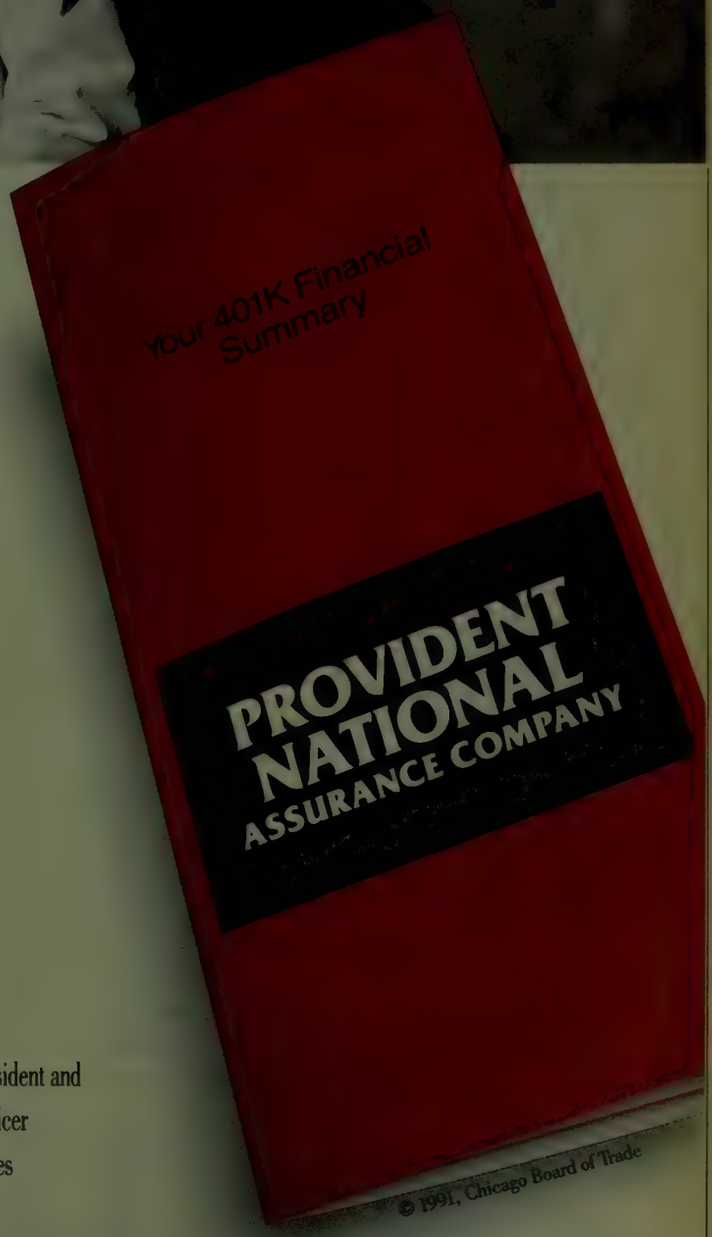

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Chicago Board of Trade

WHO'S WHERE IN THE STOCK MARKET

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
967	Oshkosh Truck	–43.8	13½	2.40	3.7
937	Outboard Marine	–37.5	16⅞	1.10	2.4
121	Owens & Minor	162.5	21	1.01	1.0
460	Owens-Corning	41.8	19½	2.57	0.0
695	Oxford Industries	7.1	15	1.31	3.3
219	Paccar	103.7	47⅝	3.05	2.1
992	Pacific Enterprises	–50.3	24⅜	2.36	7.2
586	Pacific G&E	21.1	29⅜	2.47	5.6
402	Pacific Telesis	54.5	41⅛	3.02	5.2
27	PacifiCare Health	412.2	26¼	2.36	0.0
543	PacifiCorp	27.5	22⅞	1.98	6.6
817	PaineWebber Group	–10.3	18⅞	3.38	2.1
221	Pall	103.3	23⅞	1.63	1.2
NR	Pamida Holdings	NA	4⅛	–0.38	0.0
989	Panhandle Eastern	–49.1	14⅛	1.00	5.7
572	Paramount Commun	23.1	39	2.05	1.8
643	Parker Hannifin	14.1	29⅜	1.78	3.1
809	Penn Central	–8.8	24½	2.11	2.8
317	Penn Traffic	71.0b	22⅞	–0.40	0.0
459	JC Penney	42.2	51⅜	5.02	5.1
499	Pennsylvania P&L	35.3	49⅜	4.22	6.3
832	Pennzoil	–12.9	58⅜	2.49	5.1
342	Pentair	66.3	38¾	2.99	2.4
1035	People's Bank	–62.3b	2⅞	NA	0.0
551	Peoples Energy	26.5	26¼	2.43	6.6
567	Pep Boys	23.6	17¼	0.88	0.8
70	PepsiCo	231.7	28¾	1.78	1.7
1036	Perini	–63.4	10¼	0.80	0.0
609	Perkin-Elmer	18.6	30¼	1.75	2.2
915	Perry Drug Stores	–32.7	8¼	0.75	0.0
NR	Pet	NA	18⅞	0.98	1.3
884	Petrie Stores	–23.1	20⅜	0.69	1.0
882	Petroleum Heat & Pwr	–22.3	10⅞	NA	2.9
178	Pfizer	120.9	67⅜	3.22	2.0
65	Phelps Dodge	241.0c	70¾	8.77	4.2
700	PHH	5.9	33½	3.25	3.6
722	Philadelphia Elec	3.3	23⅜	2.20	5.6
52	Philip Morris Cos	277.7	67⅞	5.68	3.1
773	Philips Electronics	–3.7	19⅛	2.22	0.0
222	Phillips Petroleum	102.1	23¾	2.11	4.7
170	Phillips-Van Heusen	131.5	18¾	1.39	0.8
444	PHM	45.4	17⅝	1.81	0.7
758	Pic'N'Save	–1.2	20⅞	1.26	0.0
473	Piedmont Natural Gas	40.3	31¾	2.66	5.5
764	Pier 1 Imports	–2.2	7⅝	0.73	0.0
909	Pilgrim's Pride	–28.4	7¼	1.05	0.8
NR	Pinkerton's	NA	24¼	2.11	0.0
983	Pinnacle West	–46.7	15⅛	1.35	0.0
828	Pioneer Financial Svcs	–12.0	7⅝	1.36	0.0
214	Pioneer Hi-Bred Intl	104.2	61¼	3.61	1.9
387	Pitney Bowes	57.0	57½	4.15	2.4
484	Pittston	38.3	16¼	1.79	1.2
NR	Pittway	NA	33	NA	1.8
947	Ply Gem Industries	–40.0	7⅞	0.75	1.5
709	PNC Financial	5.2	43⅜	4.26	4.9
879	Polaroid	–21.8	26	2.48	2.3
610	Pope & Talbot	18.5	13⅝	0.74	5.6
1000	Portland General	–51.7	14	1.56	8.6
596	Potlatch	20.0	34½	3.31	4.1
760	Potomac Electric	–1.3	24	1.99	6.5
533	PPG Industries	29.0	47	4.15	3.9
253	Precision Castparts	93.1	31⅝	2.74	0.4
336	Premark Intl	67.5	32⅞	3.23	2.6
826	Premier Bancorp	–11.9	6½	0.80	0.0
209	Premier Industrial	108.5	26⅞	1.58	1.6

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
1051	Preston	–71.8	6⅝	0.98	0.0
306	Price Co	73.3	56¾	2.94	0.0
325	Primerica	69.5	34¾	4.35	1.4
204	Procter & Gamble	111.5	80¾	5.17	2.5
366	Progressive	61.3	50	4.71	1.0
NR	Promus Cos	NA	19⅞	1.55	0.0
726	Provident Life & Acc	2.8	20¼	3.38	4.9
719	PS Group	3.5	36¾	NA	1.6
598	PSI Resources	19.5	17⅝	1.89	5.7
502	Public Service Colo	34.7	25¼	2.33	7.9
1057	Public Service NM	–73.9	8⅝	0.71	0.0
735	Pub Svc Enterprise	1.6	27¼	2.67	7.9
589	Puget Sound P&L	21.0	25¼	2.22	7.0
928	Pulitzer Publishing	–34.0	20⅛	1.48	2.6
337	Quaker Oats	67.5	67	3.54	2.6
973	Quaker State	–44.5	13⅞	0.92	5.8
16	Quanex	573.1	21⅞	1.82	2.2
198	Quantum	114.2	9⅞	1.38	0.0
1048	Quantum Chemical	–71.3c	11⅞	–0.45	0.0
627	Questar	16.1	21⅝	1.70	4.7
768	QVC Network	–3.0	16¼	0.82	0.0
425	Ralston Purina	49.5	52⅞	3.83	2.0
693	Raychem	7.5	31¾	0.70	1.0
628	Raytheon	16.0	78	9.74	3.1
NR	Reader's Digest Assn	NA	42	1.95	1.9
171	Reebok International	131.0	27	2.70	1.1
979	Reliance Group	–46.0	4¼	0.50	7.5
698	Republic New York	6.6	40⅞	4.29	2.4
1100	Rexene	–94.9bc	1⅛	–0.49	0.0
823	Reynolds & Reynolds	–11.4	29¼	2.57	3.0
132	Reynolds Metals	153.1	50⅝	4.40	3.6
36	Rhone-Poulenc Rorer	333.4	54	3.07	0.9
NR	Rhone-Poulenc	NA	19½	2.87	5.1
379	Richfood Holding	58.7b	12½	NA	0.8
1074	Riggs National	–82.1	5¼	NA	0.0
447	Riser Foods	44.6b	10⅛	1.33	0.0
541	Rite Aid	28.0	18⅞	1.65	2.6
NR	RJR Nabisco	NA	9¾	0.64	0.0
365	Roadway Services	61.6	55¾	3.64	2.2
1078	Robertson-Ceco	–83.8	2	NA	0.0
795	Rochester G&E	–7.2	20⅞	1.99	7.8
465	Rochester Telephone	41.3	31⅝	2.09	4.7
674	Rockwell Intl	10.2	25	2.64	3.7
645	Rohm & Haas	14.0	39¾	3.14	3.1
902	Rohr Industries	–27.6	21	2.34	0.0
443	Rollins	45.5	24⅜	1.52	2.4
1042	Rose's Stores	–66.9	5⅜	0.45	0.0
72	Ross Stores	226.3	15½	1.21	0.0
905	Rouse	–28.3	15	1.40	4.0
289	RPM	80.4	19	1.31	3.6
143	Rubbermaid	147.9	30⅛	2.34	1.1
229	Ruddick	100.0	15¼	1.26	2.6
408	Russell	53.3	26¼	1.89	1.2
982	Ryder System	–46.4	17⅞	1.47	3.4
846	Rykoff-Sexton	–15.3	17⅞	1.55	3.4
651	Ryland Group	13.2	22½	2.13	2.7
395	Safeco	56.1	41¾	4.11	3.5
733	Safeguard Scientifics	1.8	14	1.50	0.0
259	Safety-Kleen	88.8	28	1.30	1.1
NR	Safeway	NA	17½	1.47	0.0
NR	St Joe Paper	NA	31⅞	1.00	0.6
355	St Paul Cos	63.0	65⅝	7.91	4.0
1056	Salant	–73.8	2¾	NA	0.0
1026	Salem Carpet Mills	–58.6	3⅝	0.14	2.2
187	Sallie Mae	117.9	57⅝	4.10	1.7

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WHO'S WHERE IN THE STOCK MARKET

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
896	Salomon	–25.7	28½	4.18	2.2
540	San Diego G&E	28.0	43⅜	3.50	6.5
NR	Santa Fe Pacific	NA	10⅝	0.86	0.0
102	Sara Lee	180.4	47½	2.42	2.1
113	Savannah Foods	166.7	16	1.70	3.3
1110	Savin	–97.2	⅛	NA	0.0
671	Scana	10.6	40½	3.46	6.5
528	SCEcorp	29.9	44	3.81	6.2
81	Schering-Plough	211.4	61½	3.50	2.1
226	Schlumberger	101.2	63⅞	3.45	1.9
78	A Schulman	221.1	39⅛	2.17	0.9
207	Schultz Sav-O Stores	109.2	13¼	1.50	0.9
23	Charles Schwab	460.4a	22⅜	2.05	0.7
984	SCI Systems	–46.8	6¼	0.70	0.0
514	Scientific-Atlanta	32.6	14¾	0.53	1.1
691	Scott Paper	7.6	33¾	2.75	2.4
622	EW Scripps	16.8b	20	1.04	2.0
862	Seaboard	–19.2	118	NA	0.4
1009	Seagate Technology	–52.9	9	0.09	0.0
271	Seagram	85.2	112½	9.50	1.8
762	Sealed Air	–1.5c	39⅞	2.09	0.0
806	Sears, Roebuck	–8.5	36⅜	4.41	5.5
629	Seaway Food Town	15.9	12¾	NA	2.8
855	Security Pacific	–18.1	28⅜	3.20	0.0
661	Selective Insurance	12.1	16¼	1.77	6.4
914	Sequa	–32.2	45¼	7.09	1.3
754	Service Corp Intl	–0.5	24⅝	1.77	2.3
94	Service Merchandise	187.3c	11⅞	1.43	0.0
1014	Shared Medical Sys	–54.9	18¼	1.26	4.6
97	Shaw Industries	185.4	29¼	2.20	1.7
1037	Shawmut National	–64.1	8⅞	0.42	0.0
409	Sherwin-Williams	52.9	21⅛	1.72	2.0
135	Shoney's	152.3b	20½	1.12	0.0
176	Sigma-Aldrich	121.2	41¾	1.88	0.6
961	Signet Banking	–43.0	18¼	1.70	4.4
60	Silicon Graphics	252.9	45⅞	2.01	0.0
NR	Sizzler Intl	NA	10⅜	1.25	1.5
763	Skyline	–1.7	14⅜	0.88	3.3
NR	Smart & Final	NA	17⅛	1.04	0.9
810	AO Smith	–8.9	19⅛	2.90	4.2
NR	Smith Corona	NA	6⅞	0.85	2.9
166	Smith International	133.3	10½	0.83	0.0
35	Smithfield Foods	333.8	19¼	2.42	0.0
NR	Smith's Food & Drug	NA	37¼	2.00	1.0
82	JM Smucker	211.1	35	1.38	1.1
646	Snap-on Tools	13.7	29⅛	2.42	3.7
327	Society	69.0	47¾	5.29	3.9
452	Sonat	43.8	37⅜	2.46	5.4
324	Sonoco Products	69.7	32¼	2.57	2.9
256	Sony	91.8	35¾	2.77	1.0
602	Sotheby's Holdings	19.2b	12	0.96	7.9
369	South Carolina Natl	61.2	35⅞	3.06	2.2
830	Southdown	–12.2	12⅛	0.02	0.0
607	Southern Co	18.7	30⅛	2.83	7.1
642	So New Eng Telecom	14.2	30¾	2.63	5.7
462	SouthTrust	41.6	32	3.42	3.4
213	Southwest Airlines	105.5	28¼	1.77	0.4
943	Southwest Gas	–38.7	10⅞	1.35	6.4
390	Southwestern Bell	56.7	58⅝	4.07	4.8
712	Southwestern Pub Svc	4.4	32⅜	2.64	6.8
329	Spiegel	68.7a	14⅛	1.29	2.5
913	Sprague Technologies	–31.5a	6¼	0.45	0.8
560	Springs Industries	25.3	31¼	2.91	3.8
932	SPS Technologies	–36.4	24	NA	5.3
1015	SPX	–55.0c	11¾	1.15	3.4
290	Std Commercial	80.2	26⅛	NA	2.0
188	Standard Fedl Bank	117.0a	12¾	2.21	3.1
990	Standard Motor Prods	–49.7	10	0.97	3.2
848	Standard Products	–15.5	25	1.52	1.9
911	Standard Register	–30.8	12½	1.19	4.5
483	Standex International	38.6	22	2.25	3.5
76	Stanhome	223.1	36¾	2.98	2.5
451	Stanley Works	44.1	36¾	2.84	3.4
161	State Street Boston	137.4	55½	3.89	1.4
1049	Sterling Chemicals	–71.3b	4⅝	0.38	6.5
5	Stewart & Stevenson	1222.2	54	2.94	0.6
672	Stone Container	10.6	21⅜	1.10	3.4
638	Storage Technology	14.6	40⅛	3.40	0.0
240	Stratus Computer	97.6	41¾	2.48	0.0
897	Strawbridge	–26.7	22	3.25	5.0
14	Stride Rite	601.7	25	3.00	1.2
1111	Sudbury	–97.3	¼	NA	0.0
838	Sun Co	–13.6b	27¾	2.42	6.5
229	Sun Microsystems	100.0	24	2.08	0.0
595	Sundstrand	20.2	32	3.25	3.4
300	SunTrust Banks	76.3	35¼	3.12	2.8
797	Super Food Services	–7.3	13¾	1.57	2.5
690	Super Valu Stores	7.7	26⅜	2.43	2.7
98	Syntex	184.6	41	2.25	2.2
107	Sysco	175.0	41¼	1.95	1.0
1054	Talley Industries	–73.1	3⅞	NA	0.0
668	Talman Home Federal	10.7	9¾	2.65	0.0
243	Tambrands	97.3	54½	3.11	2.5
957	Tandem Computers	–42.3	9⅞	0.81	0.0
930	Tandon	–34.2	1⅝	0.66	0.0
934	Tandy	–37.1	26¾	3.11	2.2
29	TBC	411.3	12⅝	0.97	0.0
456	TCF Financial	42.3	17¼	2.69	2.3
48	Tech Data	293.7	26¼	1.70	0.0
331	TECO Energy	68.5	38¾	2.72	4.4
853	Tecumseh Products	–17.0	100	7.90	3.2
988	Tektronix	–48.9	17⅜	2.63	3.5
283	Tele-Communications	82.0	13⅞	0.03	0.0
NR	Teledyne	NA	19⅜	1.66	4.1
233	Teleflex	99.5	31¼	2.13	1.3
238	Temple-Inland	98.1	45⅜	3.87	1.9
821	Tenneco	–11.1	34	3.04	4.7
844	Teradyne	–15.3	13⅞	1.04	0.0
80	Terex	218.5	13⅜	2.44	0.4
997	Tesoro Petroleum	–51.2	5¼	0.67	0.0
321	Texaco	70.4c	61⅛	5.37	5.2
739	Texas Industries	0.9	20⅜	NA	1.0
898	Texas Instruments	–27.0	28¾	2.40	2.5
545	Texas Utilities	27.4	40⅛	3.70	7.5
630	Textron	15.9	36½	3.80	3.1
157	Thermo Electron	139.0	40⅝	2.23	0.0
NR	Thiokol	NA	18⅜	2.87	2.0
600	Thomas & Betts	19.4	51½	3.37	4.3
881	Thomas Industries	–22.2	11⅜	1.00	6.7
9	Thorn Apple Valley	914.3	35½	5.75	0.0
920	3Com	–33.3	10¾	0.64	0.0
71	Tiffany	229.8a	45⅝	3.02	0.6
601	Time Warner	19.3	83½	–4.75	1.2
833	Times Mirror	–13.0	27⅝	1.51	3.9
696	Timken	6.9	23⅛	1.53	4.3
NR	TJX Cos	NA	14¼	1.43	3.2
224	Torchmark	101.4	52⅜	5.16	3.1
708	Toro	5.2	15¼	1.65	3.1
165	Tosco	133.8	23⅜	3.04	2.6
1032	Town & Country	–61.1	2⅝	NA	0.0

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Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
181	Toys 'R' Us	119.1	28	1.54	0.0
616	Transamerica	17.6	38⅜	3.72	5.2
995	Transco Energy	–50.8	20⅜	1.56	2.9
1021	Travelers	–56.6	19⅜	2.92	8.3
NR	Tredegar Industries	NA	9½	1.07	2.5
537	Tribune	28.5	36⅝	2.46	2.6
348	Trinity Industries	65.4	27½	2.34	2.9
883	Trinova	–22.5	18¼	1.16	3.7
837	TRW	–13.6	36½	3.30	4.9
1093	Tucson Electric	–92.5	4⅜	–1.82	0.0
11	Turner Broadcasting	759.3	19⅞	0.45	0.0
1040	Turner Corp	–64.8	7¼	NA	0.0
NR	TW Holdings	NA	2⅞	–0.33	0.0
141	20th Century Inds	149.3	21½	2.13	2.0
386	Tyco Laboratories	57.1	32	2.28	1.1
50	Tyco Toys	283.6	29¼	2.53	0.0
201	Tyson Foods	113.3	19⅜	1.19	0.2
151	UAL	140.9	125⅞	11.02	0.0
427	UGI	49.3	19⅛	1.61	6.5
923	UJB Financial	–33.7	15¾	1.30	3.8
1008	UNC	–52.9	4⅛	0.50	0.0
25	Unifi	422.3	39½	2.38	1.5
236	Unilever NV	98.6	94½	7.71	2.9
944	Union Bank	–39.1	18	4.39	7.8
518	Union Camp	32.0	44⅞	2.97	3.5
859	Union Carbide	–18.3	18⅜	1.64	5.4
564	Union Electric	24.3	35¾	2.93	6.3
435	Union Pacific	47.8	46	3.69	3.0
136	Union Texas Petrol	151.6a	20⅛	1.43	1.0
1083	Unisys	–85.0	4	–0.20	0.0
13	United HealthCare	606.0	59⅛	2.97	0.1
578	United Illuminating	22.2	35¾	3.85	6.8
322	US Bancorp	70.3	18⅝	2.38	4.1
33	US Healthcare	354.8	35¼	2.36	1.2
1098	US Home	–94.4	⅜	0.20	0.0
969	US Shoe	–44.0	11⅝	1.42	4.5
1	US Surgical	1599.2	94	2.15	0.3
972	United Stationers	–44.4	9⅜	0.79	4.3
710	United Technologies	4.9	48¼	4.60	3.7
305	United Telecom	73.5	22⅛	2.12	4.5
NR	Unitrin	NA	33¼	2.77	3.0
177	Univar	121.2	11¾	1.00	2.6
244	Universal	97.2	53	3.80	2.9
58	Universal Foods	262.6	37⅞	2.46	2.2
274	Universal Health	83.9	12⅞	1.46	0.0
265	Unocal	86.8	24⅞	1.45	2.8
114	UNUM	166.0	71½	6.42	1.5
506	Upjohn	33.9	41⅝	3.16	3.3
546	US West	27.3	34⅜	3.07	6.1
1053	USAir Group	–72.8	9⅞	–2.09	0.0
1079	USF&G	–84.0	6⅜	–0.57	3.1
1060	USG	–75.6b	1⅜	NA	0.0
903	Uslico	–27.7	17¼	2.33	5.8
727	USLife	2.6	44⅝	4.81	3.7
30	UST Inc	384.5	53¾	2.73	2.5
NR	USX-Marathon	NA	27¾	1.49	5.0
NR	USX-US Steel	NA	27½	2.98	3.6
500	UtiliCorp United	35.1	26	2.38	6.2
44	Valero Energy	301.8	27⅝	2.85	1.3
380	Valhi	58.6	5¾	0.80	3.5
920	Valley National	–33.3	25¾	2.28	0.0
85	Valmont Industries	206.7	11½	1.20	2.3
164	Valspar	134.1	49¾	2.95	1.2
NR	Value City Dept	NA	19¼	1.81	0.0
372	Varian Associates	60.7	36¾	3.39	0.9

Rank	Company	5-year price change %	Recent price	EPS 1992 estimate $	Current yield %
761	Varity	–1.3	18½	2.85	0.0
NR	Venture Stores	NA	22⅝	2.63	2.4
634	VF	15.4	35⅝	2.96	3.0
54	Viacom	269.6a	33½	0.60	0.0
NR	Vigoro	NA	19	2.08	3.2
926	Village Super Market	–34.0	8¼	0.65	1.8
399	Vishay Intertech	55.4	16½	1.97	0.0
1045	Volt Info Sciences	–68.8	8½	NA	0.0
590	Volvo	21.0	60⅝	2.52	4.1
66	Vons Cos	240.7a	25⅛	2.03	0.0
585	Vulcan Materials	21.3	37¾	2.50	3.2
569	VWR	23.4	19¾	1.70	4.1
NR	Waban	NA	17¾	1.29	0.0
301	Wachovia	75.7	53¼	4.82	3.5
637	Wackenhut	14.8	24¼	2.28	2.5
43	Wal-Mart Stores	306.5	47¼	1.72	0.4
216	Walgreen	103.9	33	1.80	1.6
815	Wallace Computer Svcs	–9.8	19⅝	1.83	2.8
1061	Wang Laboratories	–76.3	2¾	–0.15	0.0
NR	Warnaco Group	NA	26⅛	NA	0.0
153	Warner-Lambert	140.5	70½	4.78	2.5
531	Washington Gas Light	29.6	33⅜	2.64	6.3
279	Washington Mutual	82.6	28	3.84	2.1
1002	Washington National	–52.0	15⅜	1.37	7.0
625	Washington Post	16.3	181½	11.41	2.3
129	Waste Management	154.4	35⅜	1.96	1.2
778	Waxman Inds	–4.8	5	0.45	2.4
NR	Weirton Steel	NA	3½	–1.92	0.0
701	Weis Markets	5.9	26⅛	2.10	2.4
308	Wellman	73.1a	20⅛	1.87	0.6
582	Wells Fargo	21.9	61⅞	8.85	6.5
858	Wendy's Intl	–18.3	8⅜	0.60	2.9
1086	Western Digital	–85.8	2⅝	–1.83	0.0
729	Western Publishing	2.0	13	0.80	0.0
953	Westinghouse	–42.2	16⅛	2.13	8.7
90	Westmark Intl	196.8a	46¾	2.40	0.0
829	Westmoreland Coal	–12.2	18	1.63	1.8
523	Westvaco	30.2	35⅜	2.73	3.1
552	Wetterau	26.5	24½	2.60	2.8
787	Weyerhaeuser	–6.1	23⅝	1.77	5.1
NR	Wheeling Pittsburgh	NA	7	NA	0.0
724	Whirlpool	3.0	34⅞	3.00	3.2
NR	Whitman	NA	12⅜	0.97	1.9
659	Wicor	12.4	23¾	2.20	6.2
507	Willamette Inds	33.7	54½	3.77	2.9
675	Willcox & Gibbs	10.1	7⅜	0.81	1.4
398	Williams Cos	55.4	36⅛	2.49	3.9
391	Winn-Dixie Stores	56.4	35⅞	2.38	3.3
1050	Winnebago Industries	–71.7	3¼	–0.17	0.0
491	Wisconsin Energy	37.3	36⅛	3.03	5.1
678	Wisconsin Public Svc	9.4	27	2.20	6.3
765	Witco	–2.3	37¾	3.51	4.9
538	WLR Foods	28.4b	15⅛	1.41	2.1
492	Woolworth	36.6	26⅜	2.83	4.1
269	Worthington Inds	85.2	20⅜	1.24	2.2
612	WPL Holdings	18.0	29½	2.33	6.1
1085	WPP Group	–85.6a	2⅛	1.37	0.0
104	Wm Wrigley Jr	177.6	63½	3.56	2.6
705	Wyle Laboratories	5.5	11½	1.39	2.4
1063	Wyman-Gordon	–77.3	3¾	0.07	0.0
715	Xerox	4.2	62½	5.68	4.8
904	Yellow Freight Sys	–28.1	26½	2.18	3.5
1046	Zenith Electronics	–69.7	6⅝	–0.50	0.0
936	Zenith National Ins	–37.2	15⅛	2.34	6.6
294	Zurn Industries	77.9	34¼	3.07	2.6

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In the latest 12 months only one main sector—financial services—beat its five-year average return on equity.

By Warren Midgett

Which industry had the highest five-year return on equity? The recession-resistant food, drink and tobacco group, which chalked up a 20% return.

For the median firm in this survey, latest 12-month return on equity fell to 9.9% from 12.1% last year. Financial services was the only industry in which the latest 12-month return exceeded the five-year average.

Latest 12-month earnings fell 5.9% for the median survey firm. The worst-performing industries: construction, where profits were off 88%, and travel, where the median company went from a profit to a deficit position.

Especially in a recession—when companies slash prices in order to maintain cash flow—sales growth may not translate into higher profits. For example, the median retailer's sales increased 7.7% while profits fell 5.9%.

	Profitability					Growth						Sales	Net income	Profit margin
	Return on equity					Sales			Earnings per share					
Company	rank	5-year average %	latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	rank	5-year average %	latest 12 mos %	rank	5-year average %	latest 12 mos %	latest 12 mos $mil	latest 12 mos $mil	latest 12 mos %
Food, drink & tobacco (62)	**1**	**20.0**	**17.0**	**12.4**	**30.6**	**14**	**10.6**	**7.0**	**1**	**14.8**	**7.4**	**2,029**	**79**	**3.8**
Food processors (43)		19.4	17.1	13.1	27.1		10.0	5.3		14.6	8.9	1,397	74	3.9
Beverages (9)		18.1	21.2	10.0	30.4		10.9	7.1		11.8	0.1	4,038	146	5.6
Tobacco (10)		20.6	14.8	11.2	43.1		14.1	16.1		14.9	16.3	2,037	161	2.2
Consumer nondurables (53)	**2**	**18.0**	**13.6**	**9.4**	**32.4**	**5**	**12.3**	**7.6**	**5**	**10.8**	**10.3**	**919**	**45**	**3.7**
Personal products (21)		18.2	14.3	12.5	29.2		11.8	9.3		12.4	14.9	1,559	68	5.3
Apparel & shoes (18)		20.1	13.7	9.4	31.9		14.0	7.8		14.1	12.0	850	30	3.4
Textiles (7)		9.9	8.8	5.4	34.3		12.6	1.7		-11.2	-43.8	632	15	2.0
Photography & toys (7)		12.4	9.2	7.0	33.9		6.2	5.4		NM	-9.0	1,536	65	3.5
Health (52)	**3**	**17.9**	**16.9**	**14.2**	**18.9**	**4**	**12.5**	**10.8**	**2**	**14.7**	**18.5**	**1,780**	**90**	**6.5**
Drugs (20)		22.3	29.2	23.0	12.8		11.4	12.4		16.2	19.0	4,328	533	14.2
Health care services (14)		17.3	16.5	13.9	31.4		21.2	17.5		11.6	25.3	1,214	33	3.0
Medical supplies (18)		16.8	14.9	11.4	18.9		14.8	8.3		6.4	9.7	1,105	65	6.5
Chemicals (52)	**4**	**16.7**	**13.0**	**9.4**	**30.8**	**6**	**12.2**	**4.0**	**3**	**13.9**	**-11.1**	**1,200**	**67**	**4.9**
Diversified (16)		15.2	4.8	4.6	30.4		9.1	2.1		13.1	-32.2	2,911	60	2.5
Specialized (36)		18.6	15.5	12.1	30.8		12.7	4.6		13.9	-0.4	1,011	69	6.5
Entertainment & Information (47)	**5**	**15.4**	**8.4**	**7.6**	**31.6**	**12**	**11.0**	**0.7**	**12**	**-0.7**	**-22.6**	**1,291**	**25**	**3.8**
Broadcasting & cable (9)		def	def	2.8	84.7		29.1	8.0		NM	D-D	1,442	-105	-5.3
Movies (9)		18.3	3.9	6.9	33.5		21.0	5.1		14.9	-89.1	784	8	1.5
Publishing (24)		16.4	9.4	7.6	22.1		7.7	-1.1		-4.6	-18.3	1,337	28	4.8
Advertising (5)		16.6	17.7	14.0	24.4		11.3	6.5		12.7	0.8	1,184	19	2.8
Business services & supplies (56)	**6**	**14.8**	**10.3**	**9.0**	**31.4**	**7**	**11.7**	**2.6**	**7**	**8.5**	**-10.1**	**731**	**26**	**2.7**
Business services (20)		15.2	13.2	11.0	26.3		12.2	5.1		14.3	-5.5	628	16	2.4
Business supplies (22)		12.8	8.2	8.3	23.6		9.1	-0.6		-6.0	-13.6	765	23	3.3
Industrial services (10)		15.0	7.3	5.6	40.3		16.3	3.2		-12.7	-43.0	1,031	34	2.1
Environmental & waste (4)		18.7	12.4	10.5	38.0		25.8	24.2		21.5	9.8	742	37	5.1
Forest products & packaging (30)	**7**	**14.4**	**5.5**	**4.3**	**33.3**	**9**	**11.6**	**-1.8**	**4**	**12.6**	**-48.1**	**1,562**	**47**	**2.9**
Paper & lumber (18)		15.1	4.6	4.0	34.5		11.7	-4.2		18.0	-59.2	1,792	59	2.6
Packaging (12)		14.2	8.3	8.2	31.7		10.7	3.7		8.1	-13.9	939	24	3.4
Food distribution (47)	**8**	**14.2**	**12.0**	**10.0**	**39.7**	**8**	**11.6**	**3.5**	**6**	**9.0**	**7.0**	**1,465**	**27**	**1.2**
Supermarkets & convenience (29)		13.9	12.0	10.0	41.3		10.2	2.7		6.8	0.5	1,478	13	1.2
Food wholesalers (9)		13.0	13.0	9.5	37.8		10.7	2.8		4.6	8.0	2,337	18	0.9
Restaurant chains (9)		15.1	11.4	11.5	32.0		13.0	6.4		16.7	27.0	973	28	4.1
Retailing (93)	**9**	**14.0**	**10.5**	**9.3**	**32.4**	**2**	**13.5**	**7.7**	**11**	**4.5**	**-5.9**	**1,079**	**24**	**2.2**
Department stores (10)		12.1	8.0	6.3	41.9		7.3	1.9		-1.5	-27.8	2,333	78	2.2
Apparel (16)		18.4	13.8	10.9	28.6		16.2	9.2		3.0	-0.5	1,288	26	2.7
Consumer electronics (8)		14.1	11.6	10.2	14.4		33.1	15.7		NM	-30.0	786	13	1.7
Drug & discount (27)		13.7	12.3	9.0	38.0		11.5	5.3		5.8	14.8	1,466	18	2.2
Home improvement (5)		11.9	7.8	7.5	21.6		25.3	11.8		NM	-26.1	2,681	27	1.7

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NM: Not meaningful. For further explanation, see page 95.

"One test of how 'global' insurance brokers are is how local they are. But it's not the toughest one."

David Olsen, Chairman and CEO of Johnson & Higgins, on responsiveness:

Global companies want their insurance and risk management professionals to be on call wherever they do business.

That could be any place from Bangkok to Brussels to Budapest, or even Belo Horizonte. If you can't help multinationals locally, then claiming to be "global" won't help you.

When a company puts J&H to a specific-city test, we're able to answer, "Yes," over 200 times. And if they're counting countries, the answer is over 50.

But the toughest test comes when a company asks, "What assures us of global coordination? We don't need black holes."

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It's simply this: J&H is the American broker that put the first South American network together.

And the first European network, today's UNISON.

And the first Pacific Rim network.

Nobody tops our forty years of experience in making networks work for clients.

City by city. Country by country. Hemisphere by hemisphere.

But more importantly, person-to-person.

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RISK AND INSURANCE MANAGEMENT SERVICES: EMPLOYEE BENEFIT CONSULTING WORLDWIDE.

WHO'S WHERE IN THE INDUSTRY GROUPS

Company	Profitability: Return on equity rank	Return on equity 5-year average %	Return on equity latest 12 mos %	Return on capital latest 12 mos %	Debt/capital %	Growth: Sales rank	Sales 5-year average %	Sales latest 12 mos %	Earnings per share rank	Earnings per share 5-year average %	Earnings per share latest 12 mos %	Sales latest 12 mos $mil	Net income latest 12 mos $mil	Profit margin latest 12 mos %
Home shopping (8)		8.5	10.6	12.3	62.1		14.3	8.8		14.1	10.2	766	24	2.1
Specialty retailers (19)		15.7	11.1	8.7	31.2		19.8	9.3		8.2	–5.2	796	22	3.4
Metals (36)	**10**	**13.2**	**3.7**	**3.7**	**31.2**	**13**	**10.7**	**–5.7**	**8**	**7.5**	**–66.9**	**1,025**	**27**	**1.8**
Steel (21)		11.6	0.5	2.8	27.8		8.0	–7.6		NM	–73.7	879	1	0.3
Nonferrous metals (15)		16.0	5.0	5.0	31.5		12.9	–5.1		21.2	–65.1	2,296	80	2.6
Computers & communications (88)	**11**	**13.2**	**9.4**	**7.4**	**25.0**	**1**	**14.3**	**4.5**	**16**	**–13.6**	**–19.1**	**1,223**	**40**	**4.0**
Major systems (26)		8.2	4.6	6.3	8.8		15.3	2.0		–22.2	–50.0	1,407	34	3.2
Peripherals & equipment (34)		10.0	8.3	7.6	20.8		17.2	4.2		NM	–18.1	827	11	2.4
Software (6)		26.6	10.2	9.0	3.0		47.2	13.9		NM	–29.5	912	82	6.8
Telecommunications (22)		13.9	12.8	7.5	34.2		5.5	5.0		4.6	–6.0	8,016	418	7.5
Capital goods (57)	**12**	**13.2**	**7.5**	**7.2**	**28.9**	**11**	**11.3**	**–0.8**	**9**	**7.1**	**–29.8**	**1,193**	**30**	**2.8**
Electrical equipment (15)		18.4	14.2	8.4	37.4		8.9	1.7		9.4	–37.1	1,163	35	3.0
Heavy equipment (14)		11.1	0.6	5.1	41.5		11.7	–3.0		13.3	P-D	1,317	–2	0.0
Other industrial equipment (28)		12.0	10.1	8.5	24.9		11.7	0.7		6.6	–12.3	1,058	33	2.9
Electric utilities (79)	**13**	**12.4**	**12.2**	**7.0**	**40.4**	**20**	**3.2**	**3.7**	**14**	**–11.7**	**1.7**	**1,509**	**134**	**10.1**
Northeast (23)		11.5	11.6	7.0	42.3		3.6	3.8		–11.0	1.4	1,528	168	8.6
North central (26)		12.8	12.3	6.8	39.8		1.5	3.8		–12.1	0.4	1,108	112	10.6
Southeast (10)		13.6	12.9	7.5	38.5		4.0	2.1		2.2	6.7	2,374	211	11.9
South central (8)		12.2	11.2	7.1	41.8		0.3	4.6		NM	2.4	2,325	129	10.3
Western (12)		10.1	12.1	7.1	42.3		4.9	5.0		NM	15.7	1,308	127	9.2
Aerospace & defense (37)	**14**	**12.2**	**9.4**	**7.6**	**32.8**	**19**	**6.8**	**2.2**	**17**	**–18.7**	**1.5**	**1,919**	**42**	**2.3**
Insurance (66)	**15**	**12.1**	**10.7**	**9.9**	**19.5**	**15**	**9.6**	**5.4**	**10**	**4.9**	**1.3**	**1,476**	**105**	**5.1**
Diversified (20)		12.1	10.1	9.6	14.8		7.8	5.9		–0.1	5.7	3,173	222	4.7
Life & health (18)		10.4	10.8	9.0	22.8		9.0	9.3		2.6	5.6	1,265	30	5.3
Property & casualty (24)		15.0	13.0	10.6	18.0		10.8	3.9		10.0	0.3	1,476	73	4.9
Brokerage (4)		20.5	18.1	16.3	26.2		10.3	7.7		8.1	–3.9	940	41	5.2
Financial services (112)	**16**	**11.1**	**12.0**	**8.7**	**27.2**	**10**	**11.3**	**0.1**	**19**	**NM**	**0.8**	**1,656**	**88**	**5.6**
Multinational banks (10)		2.8	8.2	7.2	43.0		9.0	–10.5		NM	D-P	7,215	286	4.2
Regional banks (62)		13.8	12.2	9.9	20.8		13.8	0.3		NM	–2.7	1,360	93	7.1
Thrift institutions (19)		0.7	7.7	5.8	30.0		6.5	–9.4		NM	P-D	882	14	2.7
Brokerage & commodity (8)		10.5	16.4	12.0	39.9		9.1	4.8		–8.8	40.6	2,726	125	5.1
Lease & finance (13)		18.1	15.6	8.1	65.5		14.2	6.8		15.1	16.8	3,428	143	7.8
Consumer durables (67)	**17**	**11.0**	**4.3**	**5.3**	**34.5**	**16**	**9.4**	**–2.3**	**18**	**NM**	**–51.1**	**1,300**	**15**	**1.1**
Automobiles & trucks (8)		9.9	def	1.2	46.4		8.6	–6.3		NM	P-D	29,902	–140	–1.7
Automotive parts (29)		12.0	4.3	5.3	34.3		8.4	–2.1		NM	–36.5	960	14	1.5
Appliances (10)		8.0	4.2	5.5	43.5		12.9	0.2		NM	–62.2	2,135	16	0.9
Home furnishings (13)		13.9	6.4	6.1	33.1		12.2	–0.7		–19.0	–29.5	1,085	26	2.6
Recreation equipment (7)		10.0	def	def	16.6		4.3	–14.1		NM	P-D	896	–15	–1.3
Transport (21)	**18**	**10.8**	**9.9**	**6.7**	**36.8**	**17**	**8.8**	**4.3**	**13**	**–6.7**	**2.9**	**2,308**	**38**	**2.3**
Railroads (8)		10.6	8.9	6.5	34.8		1.6	–1.8		–6.2	–6.5	3,859	58	6.0
Trucking & shipping (8)		8.2	9.6	7.0	38.6		13.7	5.0		NM	P-D	1,555	33	2.0
Air freight (5)		12.3	13.0	11.1	32.0		20.5	7.6		16.4	5.1	1,325	19	2.2
Energy (77)	**19**	**10.7**	**9.6**	**7.2**	**37.7**	**21**	**–4.2**	**6.0**	**19**	**NM**	**–4.7**	**1,810**	**62**	**3.5**
International oils (6)		12.0	13.2	9.7	21.3		NM	13.2		NM	28.3	49,573	2,030	4.6
Other energy (32)		9.6	9.5	7.3	37.5		3.3	9.0		NM	–21.7	2,070	51	2.5
Oilfield services (6)		8.4	9.3	8.9	24.0		–1.7	16.6		NM	18.4	3,809	148	3.3
Gas producers & pipeliners (9)		5.9	9.0	6.2	46.0		–8.3	6.0		NM	–0.6	2,028	110	3.5
Gas distributors (14)		12.3	10.8	7.1	39.1		–4.7	–3.2		–13.0	–4.6	967	44	4.9
Integrated gas (10)		8.2	9.2	6.1	37.8		–5.2	2.3		NM	–5.2	1,652	55	4.0
Construction (41)	**20**	**9.6**	**0.8**	**3.5**	**39.5**	**18**	**8.6**	**–8.2**	**15**	**–11.7**	**–87.8**	**718**	**1**	**0.1**
Commercial builders (12)		9.1	8.3	7.0	24.6		6.2	–1.2		13.6	–7.1	1,006	18	2.0
Residential builders (8)		10.7	4.7	4.7	40.2		8.0	–15.9		7.0	–63.8	837	14	1.3
Cement & gypsum (9)		11.7	def	1.0	31.8		8.9	–7.9		–4.1	P-D	512	–16	–1.6
Other materials (12)		5.7	def	1.0	51.4		9.6	–11.0		NM	P-D	513	–7	–0.6
Travel (17)	**21**	**9.4**	**0.2**	**2.3**	**50.4**	**3**	**12.6**	**9.0**	**19**	**NM**	**P-D**	**1,436**	**1**	**0.1**
Airlines (8)		7.3	def	def	45.7		18.3	9.7		NM	P-D	6,031	–242	–2.7
Hotels & gaming (9)		17.0	8.9	6.6	54.5		8.8	6.8		–4.3	–19.5	1,019	27	3.0
All-industry medians		**13.2**	**9.9**	**7.6**	**32.4**		**11.3**	**3.7**		**4.5**	**–5.9**	**1,436**	**40**	**2.9**

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NM: Not meaningful. For further explanation, see page 95.

Dow has a brighter future zipped up tight.

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WHO'S WHERE IN THIS ISSUE

This alphabetic summary compares the five-year relative performance of all 1,209 companies in this year's industry survey. The table shows how each company was ranked on five-year earnings growth, five-year stock market performance and five-year return on equity. The last column in the table gives the page number of the firm's industry survey report.

	RANK			
Company	Growth	Stock market	Profitability	Page
AAR Corp	498	869	594	98
Abbott Laboratories	246	130	47	158
Acme Steel	NM	412	874	166
Adia Services	206	624	449	98
Advanced Micro	NM	796	1050	112
ADVO-System	NM	89	367	140
Aetna Life & Cas	NM	918	706	162
Affiliated Pubs	NM	**	106	140
HF Ahmanson	618	922	714	144
Air & Water Tech	**	**	1093	98
Air Express Intl	166	249	72	172
Air Prods & Chems	411	254	387	108
Airborne Freight	287	485	630	172
Akzo	NM	**	522	108
Alaska Air Group	NM	745	805	174
Albany International	NM	576	289	156
Alberto-Culver	149	106	305	126
Albertson's	175	67	151	148
Alcan Aluminium	104	375	382	166
Alco Standard	317	384	275	98
Alexander & Alexander	524	895	391	162
Alexander & Baldwin	265	639	123	172
Alexander's	NM	894	990	168
Alleghany	528	359	736	162
Allegheny Ludlum	382	470	15	166
Allegheny Power	NM	745	569	130
Allen Group	NM	524	1010	120
Allergan	**	**	**	158
Alliant Techsystems	**	**	**	96
Allied Products	NM	1091	1069	102
Allied-Signal	NM	767	460	96, 120
Alltel	344	206	329	112
Alcoa	257	313	575	166
ALZA	**	**	**	158
AM International	NM	1080	1057	98
AMAX	110	383	180	166
AMC Entertainment	NM	971	1085	140
Amdahl	45	649	293	112
Amerada Hess	48	180	506	134
America West Airlines	NM	1081	1112	174
American Bankers	NM	556	792	162
American Brands	322	280	204	152
American Building	335	381	655	98
American Capital	NM	1113	1120	144
American Cyanamid	223	441	456	158

	RANK			
Company	Growth	Stock market	Profitability	Page
American Electric	549	660	553	130
American Express	610	925	383	144
American Family	428	227	316	162
American General	546	689	688	162
American Greetings	NM	479	694	140
American Home Prods	NM	257	6	158
American Intl Group	170	335	256	162
American Maize	NM	755	946	152
American Medical	**	**	**	158
American Natl Ins	598	818	840	162
American Oil & Gas	NM	155	1106	134
American President	NM	471	1008	172
American Stores	NM	687	622	148
American Tel & Tel	82	442	585	112
American Water Works	NM	636	765	130
Ameritech	513	497	411	112
Ameritrust	NM	388	969	144
Ameron	542	626	782	116
Ames Dept Stores	NM	1101	1122	168
Ametek	518	775	242	102
Amgen	**	**	**	158
Amoco	450	414	561	134
AMP	196	454	259	112
AMR	NM	663	834	174
AmSouth Bancorp	NM	743	518	144
Anacomp	NM	791	1100	98
Analog Devices	NM	1005	936	112
Anchor Bancorp	NM	738	1090	144
Angelica	521	469	583	158
Anheuser-Busch Cos	294	225	152	152
AnnTaylor Stores	**	**	**	168
Aon	539	489	361	162
Apogee Enterprises	301	438	334	116
Apple Computer	217	140	69	112
Applied BioScience	**	**	**	158
Applied Biosystems	**	**	**	158
Applied Magnetics	NM	871	1027	112
Applied Materials	NM	133	495	112
Applied Power	660	347	372	102
Arbor Drugs	227	109	244	168
Archer Daniels	289	101	484	152
Arden Group	87	419	68	148
Argonaut Group	108	56	96	162
Arkla	NM	873	933	134
Armco	NM	814	964	166

Growth: 5-year annual earnings-per-share growth. **Stock market:** 5-year price change. **Profitability:** 5-year return on equity.
NM: Not meaningful. **Not ranked.

Company	RANK Growth	Stock market	Profitability	Page
Armstrong World Inds	432	753	407	120
Arrow Electronics	NM	172	1018	112
Arvin Industries	661	892	907	120
Asarco	655	385	403	166
Ashland Oil	NM	717	573	134
AST Research	220	122	206	112
Atari	NM	1059	1061	112
Guy F Atkinson	NM	1013	1086	116
Atlanta Gas Light	554	416	724	134
Atlantic Energy	538	699	564	130
Atlantic Richfield	100	270	110	134
Automatic Data	264	203	213	98
AutoZone	13	**	53	168
Avery Dennison	193	711	809	98
Avnet	169	770	855	112
Avon Products	NM	468	300	126
Avondale Industries	NM	1055	1055	96
Aztar	NM	812	927	174
J Baker	437	825	229	168
Baker Hughes	53	424	838	134
Ball Corp	603	774	716	156
Bally Manufacturing	NM	1070	1095	174
Baltimore G&E	599	779	645	130
Banc One	366	173	335	144
Bancorp Hawaii	275	194	273	144
Bandag	240	123	25	120
Bank of Boston	NM	1023	1026	144
Bank of New York	NM	880	774	144
BankAmerica	NM	149	781	144
Bankers Trust NY	NM	495	847	144
Banta	494	426	483	140
CR Bard	523	439	269	158
Barnes Group	516	579	617	120
Barnett Banks	NM	759	562	144
Bardd	NM	**	**	134
Bassett Furniture Ind	666	790	923	120
Bausch & Lomb	324	126	325	158
Baxter International	NM	258	857	158
BayBanks	NM	993	920	144
Bear Stearns Cos	NM	511	420	144
Bearings	174	529	836	102
Beckman Instruments	NM	781	531	158
Becton Dickinson	364	566	339	158
Bell Atlantic	553	509	529	112
Bell Industries	NM	958	943	112
BellSouth	564	580	545	112
AH Belo	NM	680	772	140
Bemis	208	119	327	156
Beneficial Corp	NM	725	570	144
Bergen Brunswig	199	208	402	158
WR Berkley	210	403	297	162
Berkshire Hathaway	NM	91	696	162
Best Buy Co	NM	205	824	168
Bethlehem Steel	NM	248	997	166
Betz Laboratories	345	103	167	108
Beverly Enterprises	NM	996	1066	158
Big B	NM	686	925	168
Bindley Western Inds	NM	449	804	158
Biogen	**	**	**	158
Birmingham Steel	211	393	121	166
Black & Decker	NM	766	848	120
Blair	281	404	71	168

Company	RANK Growth	Stock market	Profitability	Page
H&R Block	279	84	109	144
Block Drug	366	160	425	126
Blockbuster	8	3	61	168
Blount	12	1011	551	116
Boatmen's Bancshs	496	548	712	144
Bob Evans Farms	429	415	414	148
Boeing	326	242	416	96
Boise Cascade	NM	924	677	156
Borden	325	525	532	152
Boston Edison	620	824	895	130
Bowater	406	929	492	156
Briggs & Stratton	544	655	826	102
Brinker Intl	116	34	286	148
Bristol-Myers Squibb	329	246	113	158
British Petroleum	**	351	**	134
Broad	NM	**	899	162
Broken Hill	272	117	163	134
Brooke Group	NM	906	1126	152
Brooklyn Union Gas	NM	539	660	134
Brown-Forman	390	293	176	152
Brown Group	NM	888	817	168
Browning-Ferris Inds	643	874	726	98
Bruno's	253	303	243	148
Brunswick	NM	916	764	120
Burlington Coat	481	592	604	168
Burlington Northern	587	389	224	172
Burlington Resources	**	588	**	134
Butler Manufacturing	353	1031	664	116
Cablevision Systems	NM	311	1131	140
Cabot	NM	721	549	108
Caesars World	466	360	172	174
Caldor	**	**	**	168
CalFed	NM	1104	999	144
Calgene	**	**	**	158
California Biotech	**	**	**	158
CalMat	297	785	397	116
Cambridge Biotech	**	**	**	158
Campbell Soup	NM	133	704	152
C&S/Sovran	NM	613	489	144
Capital Cities/ABC	157	428	430	140
Capital Holding	495	361	341	162
Cardinal Distribution	302	40	404	158
Carl Karcher	NM	458	508	148
Carlisle Cos	517	553	590	120
Carnival Cruise Lines	184	277	55	174
Carolina Freight	685	977	953	172
Carolina Power & Lt	NM	550	682	130
Carpenter Technology	49	396	759	166
Carter Hawley Hale	NM	1076	**	168
Carter-Wallace	343	118	388	126
Casey's General Store	535	745	595	148
AM Castle & Co	NM	464	674	166
Caterpillar	222	714	775	102
CBI Industries	34	420	906	116
CBS	675	667	77	140
CDI	401	662	231	98
Centel	NM	287	245	112
Centerior Energy	628	854	850	130
Centex	472	597	701	116
Centocor	**	**	**	158
Central & So West	NM	433	558	130
Central Hudson G&E	NM	813	778	130

Growth: 5-year annual earnings-per-share growth. **Stock market:** 5-year price change. **Profitability:** 5-year return on equity.
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Company	RANK Growth	Stock market	Profitability	Page
Central Maine Power	558	694	679	130
Central Newspapers	555	**	499	140
Central Steel & Wire	NM	521	596	166
Champion Intl	387	867	717	156
Charming Shoppes	551	713	272	168
Charter	**	288	153	134
Chase Manhattan	NM	1004	1043	144
Chemed	611	889	376	108
Chemical Banking	NM	978	1002	144
Chesapeake	359	562	599	156
Chevron	NM	413	770	134
Child World	NM	1095	1105	168
Chiquita Brands Intl	177	55	365	152
Chiron	**	**	**	158
Chrysler	676	1012	756	120
Chubb	81	179	291	162
Church & Dwight	185	175	471	126
Cigna	637	783	786	162
CILcorp	NM	804	619	130
Cincinnati Bell	316	241	354	112
Cincinnati Financial	311	264	439	162
Cincinnati G&E	461	457	343	130
Cincinnati Milacron	NM	1034	1036	102
Cipsco	NM	780	670	130
Circle K	NM	1103	1118	148
Circuit City Stores	181	467	120	168
Circus Circus	137	59	26	174
Citicorp	NM	1028	935	144
Clark Equipment	NM	583	887	102
Clorox	NM	423	457	126
CMS Energy	NM	654	996	130
CNA Financial	482	344	479	162
Coachmen Industries	NM	1030	1059	120
Coast Savings Finl	NM	1024	1073	144
Coastal Corp	293	255	589	134
Coca-Cola	224	62	27	152
Coca-Cola Bottling	NM	956	1046	152
Coca-Cola Enterprises	NM	808	922	152
Colgate-Palmolive	119	247	169	126
Collaborative Resrch	**	**	**	158
Collagen	**	**	**	158
Columbia Gas System	534	1027	863	134
Comcast	NM	199	1117	140
Comdisco	NM	466	464	98
Comerica	243	156	385	144
Commerce Bcshs	362	286	538	144
Commerce Clearing	574	965	170	140
Commercial Federal	NM	1044	1037	144
Commercial Intertech	384	542	749	102
Commercial Metals	454	357	678	144
Commonwealth Ed	632	594	860	130
Commonwealth Energy	612	788	731	130
Commtron	318	893	556	140
Comsat	NM	584	957	112
Compaq Computer	23	111	28	112
Computer Associates	88	493	100	112
Computer Sciences	213	376	452	98
ConAgra	295	167	155	152
Conner Peripherals	11	304	14	112
Conseco	21	8	24	162
Consolidated Edison	550	704	582	130
Consol Freightways	NM	1025	961	172

Company	RANK Growth	Stock market	Profitability	Page
Consol Natural Gas	573	535	715	134
Consolidated Papers	393	476	227	156
Consolidated Rail	595	116	885	172
Consolidated Stores	665	864	854	168
Constar Intl	438	437	517	156
Continental Airlines	NM	1105	1114	174
Continental Bank	NM	1017	1022	144
Continental Corp	NM	964	905	162
Control Data	NM	1038	1099	112
Cooper Industries	290	150	587	102
Cooper Tire & Rubber	105	18	252	120
Adolph Coors	658	857	966	152
Cordis	**	**	**	158
CoreStates Financial	625	565	501	144
Corning	232	110	381	112, 158
Costco Wholesale	10	15	323	168
CPC International	159	220	90	152
Crane	99	474	240	102
Crawford & Co	229	75	131	162
Cray Research	526	960	191	112
Crestar Financial	NM	935	621	144
Crown Central Pet	657	278	785	134
Crown Cork & Seal	388	137	500	156
CRSS	687	291	729	98
Crystal Brands	39	811	815	126
CSX	352	297	752	172
CUC International	242	**	959	168
Culbro	684	1003	916	152
Cummins Engine	NM	910	1089	120
Curtice Burns Foods	639	807	754	152
Cyclops Industries	**	878	74	166
Cyprus Minerals	20	252	574	166
Dairy Mart	NM	839	831	148
Dana	NM	886	641	120
Danaher	42	87	87	120
Dart Group	NM	1016	952	168
Data General	NM	991	1060	112
Datapoint	NM	1009	1116	112
Dayton Hudson	334	477	317	168
Dean Foods	360	362	223	152
Deere & Co	NM	190	737	102
Delchamps	266	745	509	148
Dell Computer	33	183	65	112
Delmarva Power & Lt	651	792	746	130
Delta Air Lines	NM	577	913	174
Delta Woodside Inds	NM	83	99	126
Deluxe	421	703	81	98
Detroit Edison	525	218	616	130
Dexter	460	820	543	108
Diagnostic Products	**	**	**	158
Dial	671	488	886	126
Diamond Shamrock	9	158	328	134
Dibrell Brothers	320	32	226	152
Diebold	NM	697	806	98
Digital Equipment	NM	954	951	112
Dillard Dept Stores	237	74	337	168
Dime Savings Bank FSB	NM	1068	1081	144
Walt Disney	189	142	141	140
Dixie Yarns	646	1019	798	126
Dole	102	266	466	152
Dollar General	NM	310	767	168
Dominion Bankshares	NM	976	825	144

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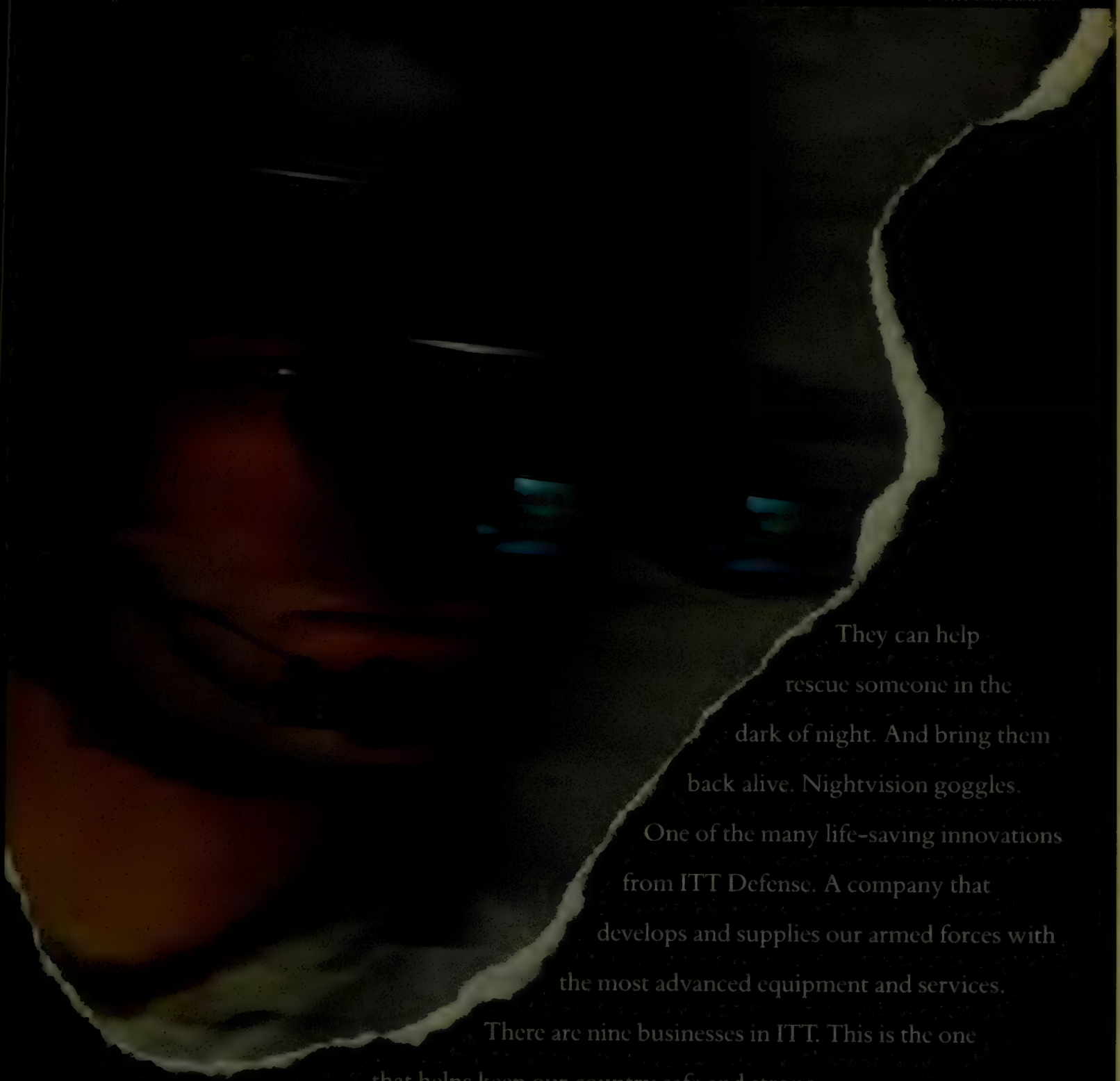

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Company	RANK Growth	RANK Stock market	RANK Profitability	Page
Dominion Resources	552	544	554	130
Donaldson	327	196	444	102
RR Donnelley & Sons	434	400	340	140
Douglas & Lomason	NM	852	986	120
Dover	300	382	236	102
Dow Chemical	171	526	97	108
Dow Jones	NM	946	211	140
DPL	209	472	450	130
DQE	NM	162	709	130
Dravo	NM	1033	1041	116
Dresser Industries	NM	215	822	134
Drug Emporium	98	876	268	168
DSC Communications	200	850	828	112
El du Pont de Nemours	260	364	445	108, 134
Duke Power	508	495	539	130
Dun & Bradstreet	444	819	127	140
Duracell Intl	**	**	980	126
Durr-Fillauer	250	125	491	158
DWG	NM	536	1038	126
Dynatech	589	955	577	112
E-Systems	374	573	375	96
Eagle Food Centers	NM	**	812	148
Eagle-Picher Inds	NM	1106	1109	102
Eastern Enterprises	118	776	681	134
Eastman Kodak	282	734	579	126
Eaton	445	647	344	120
Echlin	592	959	856	120
Ecolab	NM	571	475	98
Edison Bros Stores	NM	261	279	168
AG Edwards	478	234	357	144
EG&G	473	411	178	102
Egghead	NM	434	965	168
El Paso Electric	NM	1064	1068	130
Eljer Industries	**	**	**	116
Emerson Electric	425	332	225	102
Emerson Radio	NM	1058	1074	120
Engelhard	475	343	942	166
Enron	NM	276	735	134
Enserch	NM	784	994	134
Entergy	365	200	938	130
Enzo Biochem	**	**	**	158
Equifax	400	515	207	98
Equitable of Iowa	567	319	795	162, 168
Equitable Resources	NM	688	720	134
ERLY Industries	NM	919	1039	152
ESCO Electronics	**	**	**	96
Ethyl	176	494	157	108
Everex Systems	NM	941	873	112
Exxon	NM	340	494	134
Fairchild	NM	875	472	96
Family Dollar Stores	505	307	345	168
Fay's	68	530	377	168
Federal Express	NM	951	897	172
Federal Home Loan Mtg	314	**	78	144
Federal-Mogul	NM	872	869	120
Federal Natl Mortgage	19	41	76	144
Federal Paper Board	25	272	149	156
Federal Signal	145	42	267	102
Ferro	270	124	644	108
FHP International	83	108	32	158
Fieldcrest Cannon	NM	1020	1021	120
Fifth Third Bancorp	376	86	326	144

Company	RANK Growth	RANK Stock market	RANK Profitability	Page
Figgie Intl	443	653	409	98
Fina	NM	410	671	134
Finevest Foods	NM	1107	1124	148
First American Corp	NM	931	1020	144
First American Finl	673	822	745	162
First Bank System	NM	800	1014	144
First Brands	NM	**	39	126
First Chicago	NM	845	708	144
First City Bncp Texas	**	1099	**	144
First Fidelity Bncp	NM	847	954	144
First Financial Mgmt	51	96	421	98
First Interstate Bncp	NM	948	982	144
First Mississippi	683	453	884	108
First of America Bank	541	503	480	144
First Security	85	314	811	144
First Tennessee Natl	NM	603	657	144
First Union	NM	620	368	144
Firstar	NM	296	424	144
FirstFed Michigan	682	962	877	144
Fisher-Price	**	**	**	126
Fleet/Norstar Finl	NM	786	740	144
Fleetwood Enterprises	NM	513	580	120
Fleming Cos	543	706	666	148
Florida Progress	570	652	524	130
Florida Rock Inds	576	843	359	116
Flowers Industries	NM	840	436	152
Fluor	5	79	559	116
FMC	131	282	1131	108
Food Lion	124	77	66	148
Foodarama Supermkts	635	728	876	148
Ford Motor	NM	836	313	120
Foremost Corp of Amer	NM	981	882	162
Foster Wheeler	NM	302	898	116
Foundation Health	NM	**	1131	158
FPL Group	NM	673	934	130
Freeport-McMoRan	72	174	23	108
Fremont General	NM	431	841	162
Fruehauf Trailer	**	**	**	120
Fruit of the Loom	167	31	165	126
HB Fuller	529	193	629	108
Fuqua Industries	NM	945	753	126
Gamma Biologicals	**	**	**	158
Gannett	420	732	201	140
Gap	109	20	44	168
GATX	95	401	306	144
Gaylord Container	NM	1066	1107	156
Geico	480	250	104	162
GenCorp	306	1018	164	96
Genentech	**	**	**	158
General Cinema	158	851	43	140
General Dynamics	NM	901	979	96
General Electric	303	397	247	96, 102
General Host	NM	980	977	168
General Mills	163	88	10	152
General Motors	NM	794	910	120
General Motors EDS	207	37	487	98
GM Hughes Electronics	435	861	976	96
General Public Utils	238	182	505	130
General Re	86	362	232	162
General Signal	NM	658	948	102
Genesco	NM	356	315	168
Genetics Institute	**	**	**	158

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Company	RANK Growth	Stock market	Profitability	Page
Geneva Steel	**	**	**	166
Genlyte Group	605	917	**	102
Genovese Drug Stores	371	186	555	168
Genuine Parts	350	429	189	120
Genzyme	**	**	**	158
Georgia Gulf	70	**	8	108
Georgia-Pacific	141	532	285	156
Gerber Products	89	73	146	152
Getty Petroleum	NM	856	442	168
Giant Food	212	318	133	148
Gibson Greetings	389	420	248	126
Gillette	225	64	58	126
Gitano Group	NM	891	94	126
PH Glatfelter	172	184	129	156
Glaxo Holdings	262	46	56	158
GlenFed	NM	1073	993	144
Golden West Finl	NM	232	254	144
BF Goodrich	15	801	608	108
Goodyear	NM	635	687	120
Goulds Pumps	430	547	718	102
WR Grace	456	377	700	108
WW Grainger	347	229	331	102
Granite Construction	354	**	370	116
Great American Mgmt	NM	393	698	102
Great A&P Tea	173	633	511	148
Great Lakes Chemical	65	21	150	108
Gt Western Financial	648	865	750	144
Grey Advertising	398	508	519	140
Grossman's	NM	1039	643	158
Grow Group	NM	834	1056	108
Grumman	NM	899	839	96
GTE	467	368	380	112
Guilford Mills	575	664	875	126
Gulf States Utils	NM	516	1012	130
Hadson	NM	1068	1111	134
Frank B Hall	NM	1062	1130	162
Halliburton	29	522	944	134
Handleman	NM	554	302	140
Handy & Harman	216	987	902	166
MA Hanna	NM	280	593	108
Hannaford Bros	215	139	235	148
Hanover Insurance	363	631	448	162
Hanson	130	323	217	152
Harley-Davidson	41	12	46	120
Harman International	NM	939	891	120
Harnischfeger Inds	27	575	799	102
Harper Group	255	312	431	172
Harris Corp	645	870	909	112
Harsco	NM	685	721	95
Hartford Steam Boiler	236	191	105	162
Hartmarx	NM	1047	1013	188
Hasbro	NM	309	673	126
Hawaiian Electric	NM	632	744	130
Hechinger	NM	907	730	168
HJ Heinz	328	263	95	152
Helene Curtis Inds	672	146	763	126
Henley Group	NM	**	**	158
Hercules	NM	849	819	108
Hershey Foods	332	406	239	152
Hewlett-Packard	458	644	496	112
Hexcel	662	999	872	96
Hibernia	NM	1071	705	144

Company	RANK Growth	Stock market	Profitability	Page
Highland Superstores	NM	1097	1028	168
Hillenbrand Inds	249	131	230	158
Hillhaven	**	**	**	158
Hills Dept Stores	NM	1081	1129	168
Hilton Hotels	547	604	463	174
Holly Corp	NM	61	1	134
Holnam	NM	**	962	116
Home Depot	24	2	98	168
Home Shopping	NM	1043	878	168
HomeFed	NM	1112	1000	144
Homestake Mining	NM	561	853	166
HON Industries	348	251	107	98
Honda Motor	588	505	788	120
Honeywell	NM	245	477	102
Geo A Hormel	259	152	371	152
Horn & Hardart	NM	1072	1119	168
Houghton Mifflin	NM	827	633	140
Household Intl	418	793	238	144
Houston Industries	596	650	695	130
Howell	NM	520	967	134
Hubbell	383	228	241	102
Hudson Foods	NM	970	654	152
Huffy	135	57	486	120
Hughes Supply	644	908	865	116
Humana	76	267	195	158
JB Hunt Transport	381	730	190	172
Huntington Bcshs	531	448	537	144
IBP	NM	716	791	152
ICF Intl	7	**	82	98
ICH	NM	1077	1104	162
ICN Biomedicals	**	**	**	158
IES Industries	298	608	426	130
IGI	**	**	**	156
Illinois Central	**	**	**	172
Illinois Power	NM	877	1033	130
Illinois Tool Works	75	163	196	102
IMC Fertilizer Group	NM	657	544	108
Imcera Group	47	51	797	158
Immucor	**	**	**	158
Immunex	**	**	**	158
Imo Industries	NM	328	835	102
Imperial Chemical Inds	402	486	338	108
Imperial Holly	NM	239	352	152
INB Financial	NM	568	639	144
Inco	18	112	20	166
Independent Insurance	385	737	776	162
Ingersoll-Rand	202	202	567	102
Ingles Markets	522	745	623	148
Inland Steel Inds	NM	707	911	166
Inspiration Resources	NM	860	1058	108
Instrument Systems	NM	115	864	126
Intel	142	92	220	112
Intelligent Electron	1	19	59	168
Interco	NM	1096	974	120
Interface	204	702	342	98
Intergraph	559	736	600	112
Interlake	NM	1089	900	102
IBM	NM	868	540	112
Intl Flavors & Frags	274	154	237	108
Intl Multifoods	NM	371	723	152
International Paper	69	273	498	156
Intl Specialty Prods	**	**	**	108

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Interpublic Group	269	138	192	140
Interstate Bakeries	**	**	**	152
InterTAN	674	350	683	168
Iowa-Illinois G&E	NM	677	572	130
Ipalco Enterprises	NM	517	470	130
Itel	NM	534	903	112
ITT	138	744	675	162
Jacobs Engineering	17	7	174	116
James River Corp Va	624	952	845	126
Jamesway	NM	1041	1019	168
Jefferson-Pilot	483	367	741	162
Johnson & Johnson	165	95	91	126, 158
Johnson Controls	NM	618	794	120
Jostens	462	326	63	168
JWP	61	262	124	98
Kaman	600	950	689	96
Kansas City P&L	566	378	699	130
Kansas City Southern	NM	676	956	172
Kansas Gas & Elec	NM	450	833	130
Kansas Power & Light	571	741	590	134
Kaufman & Broad Home	367	504	158	116
Kellogg	380	235	52	152
Kellwood	641	756	652	126
Kelly Services	231	611	79	98
Kemper	132	446	650	162
Kennametal	492	569	586	102
Kentucky Central Life	609	994	783	162
Kentucky Utilities	449	581	478	130
Kerr Glass Mfg	NM	938	1034	156
Kerr-McGee	188	478	862	134
KeyCorp	503	285	473	144
Keystone Intl	187	185	263	102
Kimball International	509	509	468	120
Kimberly-Clark	304	168	202	126
King World Prods	63	99	3	140
Kmart	369	475	527	168
KN Energy	263	519	904	134
Knight-Ridder	407	757	212	140
Kroger	649	237	975	148
LA Gear	3	26	5	126
La-Z-Boy Chair	560	445	526	120
Laclede Gas	601	745	684	134
LADD Furniture	NM	1005	432	120
Lafarge	96	559	665	116
Lancaster Colony	80	268	465	152
Lance	451	665	200	152
Lands' End	391	197	48	168
Leggett & Platt	NM	490	408	120
Lennar	477	374	760	116
Leslie Fay Cos	351	417	309	126
Leucadia National	NM	210	274	162
LG&E Energy	565	591	625	130
Liberty Corp	NM	587	748	162
Life Technologies	**	**	**	158
Lifetime	43	487	742	158
Eli Lilly	283	223	119	158
Limited	214	373	62	168
Lincoln Electric	NM	461	733	102
Lincoln National	NM	656	758	162
Lionel	NM	1092	1007	168
Litton Industries	NM	617	680	96
LIVE Entertainment	93	835	214	140

Company	RANK Growth	RANK Stock market	RANK Profitability	Page
Liz Claiborne	151	316	41	126
Lockheed	NM	841	428	96
Loctite	121	69	137	108
Loews	375	298	179	162
Lone Star Tech	NM	926	1065	166
Long Island Lighting	602	159	937	130
Longs Drug Stores	358	598	332	168
Longview Fibre	161	334	182	156
Loral	412	799	347	96
Lotus Development	NM	482	115	112
Louisiana Land	NM	498	945	134
Louisiana-Pacific	112	527	634	156
Lowe's Cos	493	682	662	168
LSI Logic	NM	912	1042	112
LTV	NM	941	1131	166
Lubrizol	160	354	209	108
Lukens	54	47	253	156
Lyondell Petrochem	**	**	**	108
M/A-Com	NM	998	1044	112
Magma Copper	NM	831	358	156
MagneTek	28	**	21	102
MAI Systems	NM	1108	1094	112
Manor Care	NM	593	620	158
Manufacturers Hanover	NM	963	1025	144
Manufacturers Natl	433	212	427	144
Manville	NM	986	**	116
Mapco	219	217	175	134
Marion Merrell Dow	234	358	36	158
Mark IV Industries	57	148	60	102
Marriott	629	968	276	174
Marsh & McLennan Cos	395	623	34	162
Marsh Supermarkets	292	292	389	148
Marshall & Ilsley	506	275	443	144
Marshall Industries	64	147	400	112
Martin Marietta	396	480	92	96
Masco	582	890	534	116
Masco Industries	NM	1022	813	120
Mattel	NM	45	148	126
Maxtor	NM	1052	1003	112
Maxus Energy	NM	669	1123	134
Maxxam	NM	68	12	166
May Dept Stores	117	430	261	168
Maytag	586	949	197	120
MBNA	256	**	143	144
McCaw Cellular	NM	338	1072	112
McClatchy Newspapers	417	679	475	140
McCormick & Co	77	39	147	152
McDermott Intl	NM	866	1088	102
McDonald's	313	346	188	148
McDonnell Douglas	654	740	846	96
McGraw-Hill	NM	771	392	140
MCI Communications	30	38	132	112
McKesson	548	648	659	158
MCN	650	549	419	134
MDC Holdings	NM	1090	1102	116
Mead	NM	640	614	156
Medco Containment	59	28	821	168
Media General	NM	789	844	140
Medtronic	239	49	171	158
Mellon Bank	NM	940	1032	144
Melville	333	405	183	126
Mercantile Bancorp	NM	556	908	144

Growth: 5-year annual earnings-per-share growth. **Stock market:** 5-year price change. **Profitability:** 5-year return on equity.
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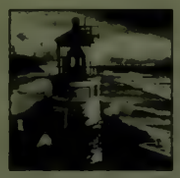

Van Kampen Merritt
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WHO'S WHERE IN THIS ISSUE

Company	RANK Growth	Stock market	Profitability	Page
Mercantile Stores	530	772	515	168
Merck	106	63	13	158
Mercury General	129	299	139	162
Meredith	310	885	669	140
Meridian Bancorp	664	718	751	144
Merisel	NM	574	186	112
Meritor Savings Bank	NM	1094	1110	144
Merrill Lynch	608	481	920	144
Merry-Go-Round	74	24	80	168
Fred Meyer	499	330	773	168
Michael Foods	122	339	125	152
Michigan National	330	641	390	144
MicroAge	NM	295	320	168
Micron Technology	NM	100	284	112
Microsoft	36	6	16	112
Midlantic	NM	1087	894	144
Midwest Resources	NM	777	642	130
Herman Miller	627	863	578	98
Millipore	NM	692	607	98
Mine Safety Appliance	488	512	697	98
Minn Mining & Mfg	285	418	181	98
Minnesota Power & Lt	NM	745	490	130
Mirage	NM	128	598	174
Mitchell Energy	321	436	950	134
MLX	NM	1109	1113	116
MNC Financial	NM	1067	988	144
Mobil	447	349	649	134
Modine Manufacturing	441	260	379	120
Molecular Biosystems	**	**	**	158
Molex	338	333	453	112
Monsanto	309	345	446	108
Montana Power	NM	555	779	130
Moore Corp	NM	742	603	98
JP Morgan & Co	NM	432	926	144
Morgan Products	NM	1029	917	116
Morgan Stanley	247	127	93	144
Morrison	245	455	395	148
Morrison Knudsen	NM	802	1017	116
Morton International	465	**	488	108
Motorola	58	320	571	112
Multimedia	37	407	1131	140
Murphy Oil	NM	501	940	134
Nacco Industries	479	370	333	102
Nalco Chemical	299	144	144	108
Nash Finch	545	745	676	148
Nashua	470	803	653	98
National City	419	666	349	144
Natl Convenience	NM	1075	1071	148
National Education	NM	1007	987	98
National Fuel Gas	NM	558	725	134
National Health Labs	91	93	187	158
National Intergroup	NM	684	1096	158
National Medical	111	605	304	158
Natl Semiconductor	NM	1001	1078	112
National Service	606	798	613	102
Navistar Intl	NM	974	867	120
NBD Bancorp	377	192	398	144
NCH	147	195	255	108
NCNB	378	352	384	144
Neiman Marcus Group	NM	887	1029	168
New England Electric	NM	669	602	130
New Valley	NM	1102	1127	144

Company	RANK Growth	Stock market	Profitability	Page
NY State E&G	NM	842	691	130
New York Times	NM	985	278	140
Newell Co	115	17	228	120
Newmont Mining	190	563	971	166
Niagara Mohawk Power	681	723	947	130
Nicor	NM	353	283	134
NIKE	40	10	45	126
Nipsco Industries	66	188	830	130
Nissan Motor	155	440	949	120
NL Industries	50	975	**	108
Noland	614	933	929	116
Nordstrom	271	341	282	168
Norfolk Southern	413	211	722	172
Nortek	NM	1088	1079	116
Northeast Federal	NM	1084	1101	144
Northeast Utilities	572	782	661	130
No States Power	NM	606	552	130
Northern Telecom	502	105	510	112
Northern Trust	NM	169	406	144
Northrop	NM	966	881	96
Norwest	NM	145	413	144
Novell	26	4	35	112
Nucor	459	120	459	166
NWNL	519	769	702	162
Nynex	579	619	686	112
Occidental Petroleum	NM	900	1063	134
Office Depot	NM	53	656	168
Ogden	634	816	435	98
Ohio Casualty	336	615	454	162
Ohio Edison	604	731	707	130
Oklahoma G&E	471	614	451	130
Old Kent Financial	510	392	363	144
Old Republic Intl	468	315	461	162
Olin	416	681	514	108
Olsten	323	284	203	98
Omnicom Group	373	422	257	140
Oneida	663	463	647	120
Oneok	NM	805	807	134
Oracle Systems	NM	22	122	112
Orange & Rockland	562	683	566	130
Orion Capital	NM	621	624	162
Orion Pictures	NM	1065	1051	140
Oryx Energy	**	720	**	134
Oshkosh Truck	NM	967	914	96
Outboard Marine	NM	937	1040	120
Owens & Minor	NM	121	784	158
Owens-Corning	NM	460	1131	116
Oxford Industries	NM	695	932	126
Paccar	346	219	374	120
Pacific Enterprises	NM	992	890	134, 168
Pacific G&E	578	586	823	130
Pacific Telesis	536	402	516	112
PacifiCare Health	90	27	117	158
PacifiCorp	504	543	485	130
PaineWebber Group	NM	817	1016	144
Pall	392	221	292	108
Pamida Holdings	NM	**	9	168
Panhandle Eastern	NM	989	1075	134
Paramount Commun	179	572	116	140
Parker Hannifin	580	643	743	102
Penn Central	NM	809	893	102
Penn Traffic	NM	317	1128	148

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Company	RANK Growth	Stock market	Profitability	Page
JC Penney	319	459	412	168
Pennsylvania P&L	446	499	520	130
Pennzoil	103	832	1077	134
Pentair	414	342	550	102
People's Bank	**	1035	**	144
Peoples Energy	NM	551	548	134
Pep Boys	442	567	530	168
PepsiCo	241	70	88	152
Perini	NM	1036	963	116
Perkin-Elmer	NM	609	1015	158
Perry Drug Stores	NM	915	1054	168
Pet	**	**	**	152
Petrie Stores	670	884	939	168
Petroleum Heat & Pwr	NM	882	1076	134
Pfizer	507	178	312	158
Phelps Dodge	16	65	128	166
PHH	NM	700	628	98
Philadelphia Elec	NM	722	829	130
Philip Morris Cos	156	52	50	152
Philips Electronics	NM	773	1070	120
Phillips Petroleum	452	222	295	134
Phillips-Van Heusen	403	170	64	126
PHM	254	444	610	116
Pic'N'Save	617	758	299	168
Piedmont Natural Gas	305	473	482	134
Pier 1 Imports	NM	764	469	168
Pilgrim's Pride	NM	909	434	152
Pinkerton's	79	**	112	98
Pinnacle West	NM	983	1030	130
Pioneer Financial Svs	NM	828	832	162
Pioneer Hi-Bred Intl	409	214	507	152
Pitney Bowes	485	387	321	98
Pittston	NM	484	984	172
Pittway	591	**	793	120
Ply Gem Industries	NM	947	808	116
PNC Financial	668	709	667	144
Polaroid	194	879	727	126
Pope & Talbot	126	610	262	156
Portland General	NM	1000	871	130
Potlatch	150	596	415	156
Potomac Electric	NM	760	441	130
PPG Industries	307	533	233	120
Precision Castparts	235	253	250	96
Premark Intl	619	336	734	120
Premier Bancorp	NM	826	1092	144
Premier Industrial	268	209	83	102
Preston	NM	1051	1048	172
Price Co	273	306	166	168
Primerica	44	325	533	144
Procter & Gamble	113	204	270	126
Progressive	275	366	136	162
Promus Cos	**	**	**	174
Provident Life & Acc	512	726	612	162
PS Group	NM	719	924	96
PSI Resources	490	598	42	130
Public Service Colo	491	502	481	130
Public Service NM	NM	1057	1006	130
Pub Svc Enterprise	515	735	563	130
Puget Sound P&L	NM	589	591	130
Pulitzer Publishing	474	928	2	140
Quaker Oats	394	337	134	152
Quaker State	NM	973	968	134

Company	RANK Growth	Stock market	Profitability	Page
Quanex	6	16	437	156
Quantum	NM	198	103	112
Quantum Chemical	NM	1048	631	108
Questar	NM	627	802	134
QVC Network	NM	768	941	168
Ralston Purina	556	425	37	152
Raychem	NM	693	1009	112
Raytheon	340	628	145	96
Reader's Digest Assn	140	**	19	140
Reebok International	218	171	70	126
Reliance Group	NM	979	193	162
Repligen	**	**	**	158
Republic New York	NM	698	790	144
Rexene	**	1100	**	108
Reynolds & Reynolds	NM	823	319	98
Reynolds Metals	107	132	281	156
Rhone-Poulenc	NM	**	438	108
Rhone-Poulenc Rorer	405	36	581	158
Richfood Holding	**	379	**	148
Riggs National	NM	1074	1004	144
Riser Foods	**	447	249	148
Rite Aid	431	541	308	168
RJR Nabisco	**	**	**	152
Roadway Services	404	365	546	172
Robertson-Ceco	NM	1076	1083	116
Rochester G&E	NM	795	757	130
Rochester Telephone	NM	465	606	112
Rockwell Intl	540	674	311	96
Rohm & Haas	422	645	348	108
Rohr Industries	583	902	912	96
Rollins	439	443	22	98
Rose's Stores	NM	1042	1001	168
Ross Stores	198	72	360	168
Rouse	NM	905	820	144
RPM	342	289	324	108
Rubbermaid	252	143	168	120
Ruddick	361	229	523	148
Russell	288	408	314	126
Ryder System	677	982	888	144
Rykoff-Sexton	NM	846	818	148
Ryland Group	464	651	198	116
Safeco	372	395	318	162
Safeguard Scientifics	203	733	246	98
Safety-Kleen	278	259	184	98
Safeway	NM	**	1131	148
St Joe Paper	NM	**	780	156
St Paul Cos	114	355	298	162
Salant	NM	1056	1121	126
Salem Carpet Mills	622	1026	766	126
Sallie Mae	148	187	38	144
Salomon	NM	896	796	144
San Diego G&E	NM	540	467	130
Santa Fe Pacific	NM	**	**	172
Sara Lee	277	102	218	152
Savannah Foods	101	113	161	152
Savin	NM	1110	1125	98
Scana	487	671	394	130
SCEcorp	557	528	455	130
Schering-Plough	182	81	111	158
Schlumberger	120	226	648	134
A Schulman	180	78	216	108
Schultz Sav-O Stores	399	207	393	148

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Charles Schwab	**	23	816	144
SCI Systems	679	984	896	112
Scientific-Atlanta	NM	514	732	112
Scott Paper	NM	691	418	126
EW Scripps	NM	622	710	140
Seaboard	284	862	547	152
Seagate Technology	NM	1009	399	112
Seagram	244	271	535	152
Sealed Air	630	762	842	156
Sears, Roebuck	577	806	814	162, 168
Seaway Food Town	NM	629	663	148
Security Pacific	656	855	692	144
Selective Insurance	514	661	251	162
Sequa	678	914	635	96
Service Corp Intl	NM	754	928	126
Service Merchandise	133	94	762	168
Shared Medical Sys	626	1014	429	98
Shaw Industries	267	97	138	126
Shawmut National	NM	1037	1005	144
Sherwin-Williams	427	409	287	108
Shoney's	623	135	889	148
Sigma-Aldrich	195	176	118	108
Signet Banking	NM	961	513	144
Silicon Graphics	22	60	502	112
Sizzler Intl	144	**	493	148
Skyline	615	763	866	116
Smart & Final	248	**	386	168
AO Smith	NM	810	915	120
Smith Corona	**	**	**	98
Smith International	NM	166	1080	134
Smithfield Foods	197	35	49	152
Smith's Food & Drug	226	**	330	148
JM Smucker	291	82	266	152
Snap-on Tools	370	646	221	120
Society	423	327	405	144
Sonat	NM	452	861	134
Sonoco Products	469	324	307	156
Sony	379	256	843	120
Sotheby's Holdings	31	602	18	168
South Carolina Natl	426	369	504	144
Southdown	686	830	615	116
Southern Co	597	607	703	130
So New Eng Telecom	520	642	541	112
SouthTrust	484	462	396	144
Southwest Airlines	455	213	777	174
Southwest Gas	NM	943	626	134
Southwestern Bell	561	390	597	112
Southwestern Pub Svc	NM	712	366	130
Spiegel	154	329	205	168
Sprague Technologies	NM	913	1097	112
Springs Industries	NM	560	880	120
SPS Technologies	NM	932	970	96
SPX	NM	1015	565	120
Std Commercial	659	290	960	152
Standard Fedl Bank	636	188	632	144
Standard Motor Prods	607	990	849	120
Standard Products	NM	848	992	120
Standard Register	585	911	636	98
Standex International	339	483	542	98
Stanhome	162	76	86	126
Stanley Works	453	451	447	102
State Street Boston	337	161	260	144
Sterling Chemicals	667	1049	7	108

Company	RANK Growth	RANK Stock market	RANK Profitability	Page
Stewart & Stevenson	125	5	222	102
Stone Container	143	672	154	156
Storage Technology	647	638	627	112
Stratus Computer	92	240	162	112
Strawbridge	NM	897	640	168
Stride Rite	55	14	84	126
Sudbury	NM	1111	1108	102
Sun Co	669	838	955	134
Sun Microsystems	52	229	301	112
Sundstrand	251	595	618	96
SunTrust Banks	397	300	322	144
Super Food Services	511	797	497	148
Super Valu Stores	368	690	290	148
Synbiotics	**	**	**	158
Synergen	**	**	**	158
Syntex	258	98	11	158
Sysco	186	107	265	148
Talley Industries	NM	1054	1084	96
Talman Home Federal	653	668	919	144
Tambrands	408	243	156	126
Tandem Computers	613	957	800	112
Tandon	NM	930	892	112
Tandy	527	934	356	168
TBC	38	29	130	120
TCF Financial	NM	456	1049	144
Tech Data	146	48	102	112
TECO Energy	463	331	423	130
Tecumseh Products	652	853	803	102
Tektronix	NM	988	1011	112
Tele-Communications	NM	283	1091	140
Teledyne	NM	**	17	96
Teleflex	286	233	280	96
Temple-Inland	123	238	310	156
Tenneco	NM	821	525	102
Teradyne	NM	844	1031	112
Terex	73	80	101	102
Tesoro Petroleum	NM	997	1062	134
Texaco	NM	321	693	134
Texas Industries	NM	739	989	156
Texas Instruments	NM	898	738	112
Texas Utilities	NM	545	576	130
Textron	568	630	651	96
Thermo Electron	233	157	601	98
Thiokol	NM	**	440	96
Thomas & Betts	476	600	353	112
Thomas Industries	NM	881	609	102
Thorn Apple Valley	NM	9	173	152
3Com	NM	920	901	112
Tiffany	60	71	29	168
Time Warner	NM	601	1023	140
Times Mirror	584	833	355	140
Timken	35	696	958	102
TJX Cos	NM	**	**	168
Torchmark	355	224	108	162
Toro	590	708	503	120
Tosco	14	165	33	134
Town & Country	NM	1032	858	168
Toys 'R' Us	168	181	210	168
Transamerica	486	616	637	162
Transco Energy	NM	995	995	134
Travelers	NM	1021	972	162
Tredegar Industries	**	**	**	166
Tribune	NM	537	719	140

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Company	RANK Growth	Stock market	Profitability	Page
Trinity Industries	46	348	668	102
Trinova	638	883	768	102
TRW	NM	837	378	120
Tucson Electric	NM	1093	1098	130
Turner Broadcasting	NM	11	1131	140
Turner Corp	NM	1040	1067	116
TW Holdings	**	**	**	148
20th Century Inds	56	141	67	162
Tyco Laboratories	127	386	160	102
Tyco Toys	NM	50	258	126
Tyson Foods	201	201	114	152
UAL	NM	151	126	174
UGI	NM	427	672	134
UJB Financial	NM	923	739	144
UNC	NM	1008	879	96
Unifi	78	25	142	126
Unilever NV	228	236	277	152
Union Bank	280	944	401	144
Union Camp	152	518	373	156
Union Carbide	640	859	89	108
Union Electric	178	564	462	130
Union Pacific	501	435	557	172
Union Texas Petrol	NM	136	40	134
Unisys	NM	1083	1064	112
United HealthCare	NM	13	369	158
United Illuminating	NM	578	973	130
US Bancorp	331	322	422	144
US Healthcare	NM	33	135	158
US Home	NM	1098	1103	116
US Shoe	NM	969	981	168
US Surgical	84	1	194	158
United Stationers	594	972	755	98
United Technologies	191	710	528	96
United Telecom	NM	305	362	112
Unitrin	NM	**	859	162
Univar	139	177	410	108
Universal	261	244	**	152
Universal Foods	128	58	199	152
Universal Health	593	274	930	158
Unocal	NM	265	685	134
UNUM	62	114	592	162
Upjohn	424	506	288	158
US West	497	546	512	112
USAir Group	NM	1053	1053	174
USF&G	NM	1079	1035	162
USG	NM	1060	747	116
Uslico	NM	903	713	162
USLife	563	727	837	162
UST Inc	221	30	31	152
USX-Marathon	NM	**	801	134
USX-US Steel	183	**	57	166
UtiliCorp United	532	500	568	134
Valero Energy	2	44	868	134
Valhi	71	380	75	108
Valley National	NM	920	1045	144
Valmont Industries	32	85	303	102
Valspar	230	164	159	108
Value City Dept	**	**	**	168
Varian Associates	NM	372	870	112
Varity	NM	761	658	120
Venture Stores	NM	**	769	168
VF	581	534	417	126
Viacom	**	54	1052	140

Company	RANK Growth	Stock market	Profitability	Page
Vigoro	97	**	4	108
Village Super Market	631	926	810	148
Vishay Intertech	205	399	296	112
Volt Info Sciences	NM	1045	998	98
Volvo	NM	590	564	120
Vons Cos	NM	66	883	148
Vulcan Materials	312	585	219	116
VWR	489	569	234	158
Wabar	**	**	**	168
Wachovia	440	301	350	144
Wackenhut	457	637	346	98
Wal-Mart Stores	94	43	51	164
Walgreen	315	216	215	166
Wallace Computer Svcs	448	815	433	98
Wang Laboratories	NM	1061	1115	112
Warnaco Group	NM	**	1131	126
Warner-Lambert	296	153	30	158
Washington Gas Light	NM	531	638	134
Washington Mutual	NM	279	851	144
Washington National	NM	1002	1024	162
Washington Post	308	625	85	140
Waste Management	164	129	140	98
Waxman Inds	NM	778	177	116
Weirton Steel	NM	**	983	166
Weis Markets	436	701	351	148
Wellman	67	308	54	108
Wells Fargo	134	582	185	144
Wendy's Intl	4	858	918	148
Western Digital	NM	1086	1047	112
Western Publishing	633	729	521	140
Westinghouse	NM	953	294	102
Westmark Intl	NM	90	931	158
Westmoreland Coal	NM	829	985	134
Westvaco	500	523	605	156
Wetterau	415	552	264	148
Weyerhaeuser	341	787	711	156
Wheeling Pittsburgh	**	**	**	166
Whirlpool	642	724	771	120
Whitman	NM	**	**	152
Wicor	621	659	761	134
Willamette Inds	192	507	208	156
Willcox & Gibbs	NM	675	560	102
Williams Cos	680	398	827	134
Winn-Dixie Stores	410	391	271	148
Winnebago Industries	NM	1050	1087	120
Wisconsin Energy	537	491	456	130
Wisconsin Public Svc	569	678	588	130
Witco	NM	765	728	108, 134
WLR Foods	NM	538	474	152
Woolworth	357	492	364	169
Worthington Inds	533	269	336	166
WPL Holdings	NM	612	536	130
WPP Group	349	1085	978	140
Wm Wrigley Jr	153	104	73	152
Wyle Laboratories	136	705	787	112
Wyman-Gordon	NM	1063	991	96
Xerox	616	715	852	98, 162
XOMA	**	**	**	158
Yellow Freight Sys	NM	904	646	172
Zenith Electronics	NM	1046	1082	120
Zenith National Ins	NM	936	789	162
Zurn Industries	356	294	611	98

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Knowing where your customers and your competitors are is vital to your business. Here's how to find them on a computer screen.

Geographics

By David Churbuck

FOR A GOOD demonstration of the power of that discipline called "geographic information systems," look no further than Operation Desert Storm. In the Gulf war, everything from supply logistics to cruise-missile targets was based on computer mapping systems from Intergraph Corp. and a former division of McDonnell Douglas Corp.

Now the practitioners of this art are selling their systems as a commercial weapon. Put your stores and distribution centers on a map overlaid with census tract income figures, they say, and you can see where to expand. Put a map of suburban homes into a computer and it will find the optimum layout of newspaper delivery routes. Combine fire-hydrant locations and crime statistics on a digital map and you can price homeowner insurance more competitively.

The professionals call this by its acronym, GIS. But a better name would perhaps be geographics, since the power of these digitized maps comes through only when they are displayed on a color graphics terminal. There's a huge difference between a stack of printed customer names and addresses and a color-coded map showing where they are clustered.

"Business people are not used to looking at data on a map," says Joseph Francica, a senior manager at Intergraph, a Huntsville, Ala. producer of hardware and software used in geographics. "Business people are accustomed to looking at data in tabular formats. GIS gives them the choice between hundreds of pages of printed output or one map."

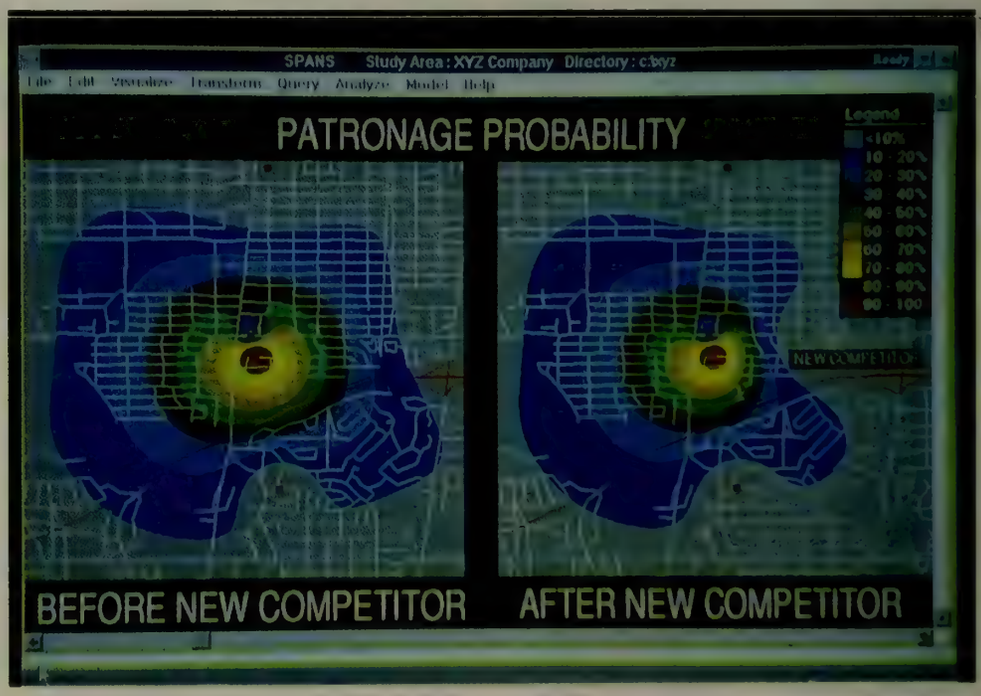
Several factors combine to give geographics potentially explosive growth over the next decade. One is that the Bureau of the Census is now selling street maps and economic and population data, detailed down to city blocks, on compact disks. A 44-disk set of street maps covers the entire U.S. for only $11,000; 17 disks of population and economic data cost an additional $1,700.

Another factor is that programmers are figuring out how to mesh this spatial database with traditional alphabetic and numeric databases, such as lists of customers, registered car owners and mortgagors. The marketers know who you are. Now it is only a matter of time before they know where you are.

"Most corporate data already contain some geographic elements in the form of street addresses and zip codes," says David Radoff, a spokesman for Strategic Mapping, a San Jose, Calif. maker of mapping software. "The problem is how to look at that information spatially. A report can't determine that one zip code is contiguous to another. A map can."

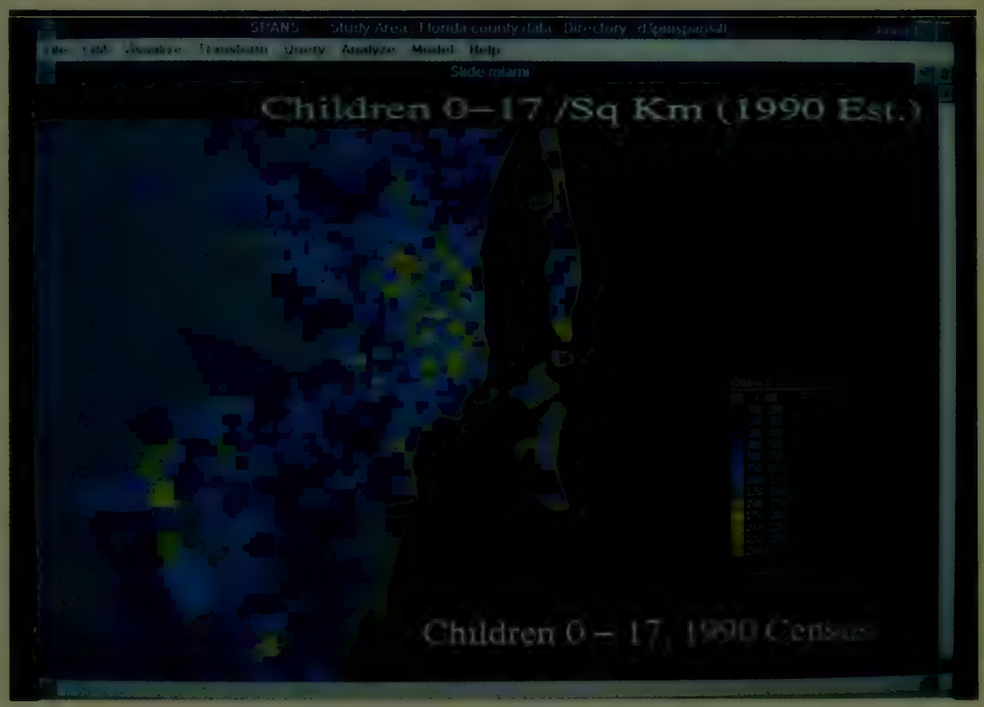
Geographics is an outgrowth of an older industry that provided computerized maps to civil engineers trying to keep an eye on subdivisions and manhole covers. But the next generation of customers will be very different: banks, insurance companies, department stores and junk mailers merging their customer databases into digital maps.

Arby's, the roast beef sandwich chain, uses geographics to site new stores. Chemical Bank uses it to ensure that it lends money fairly in poor



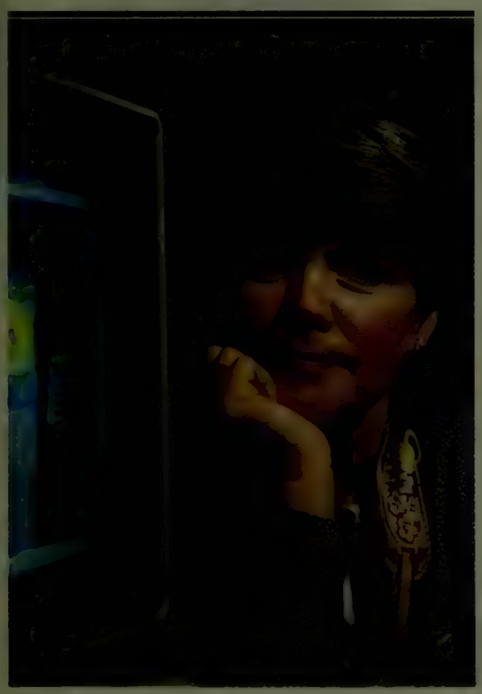
Visualizing the competition
Software from Tydac shows the impact a new competitor will have on an existing store's customers.

Siting a store
Using 1990 census data and Tydac's system, a Miami retailer can find potential customers, in this case Hispanic children, by mapping Hispanic areas, overlaying the map with the population of children up to age 17, and incorporating data on median incomes.



neighborhoods. For insurance companies, Datamap, of Eden Prairie, Minn., provides software that can locate an address—say, 123 Main Street, Pensacola—by searching its database of digital Pensacola maps, locating the 100 block on Main Street and finding a point 23% down the street. Then it measures the distance from the home address to the nearest fire hydrant, police station and body of water. An underwriter connected to an Insurance Services Office mainframe in New York can get a near-instant risk assessment.

RR Donnelley GeoSystems, based in Lancaster, Pa., sells a locator system used by travel agents to find hotels convenient to business appointments or banks trying to determine the



Photographs by Claudio Edinger/Gamma-Liaison

IBM's Jeanne Savage
Her job: teaching businesses to make the transition from spreadsheet to spatial analysis.

Everything MIS needs to know abou the difference between a Compaq P with Intelligent Modularity and a merely upgradable PC.

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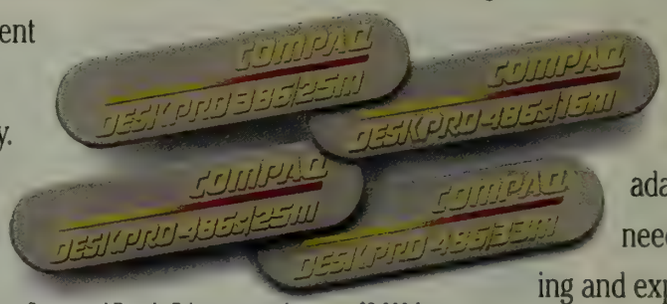

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3. Separate I/O board for potential enhancements and ease of service	Yes	No	No	No	No
4. 14 levels of security including cable-lock provision	Yes	No	No	No	No
5. System configuration and ID number available in memory and accessible remotely	Yes	No	No	No	Yes
6. Power supply adequate for all expansion needs	240w	150w	145w	220w	194w

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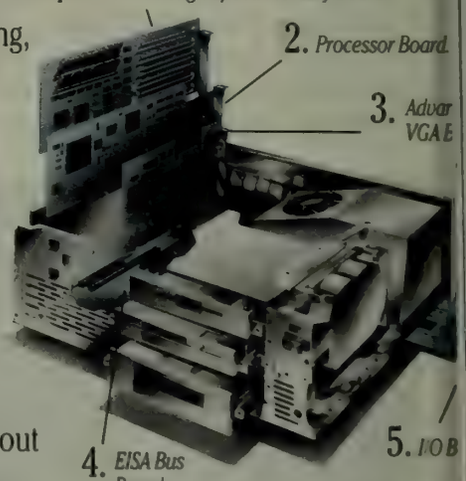

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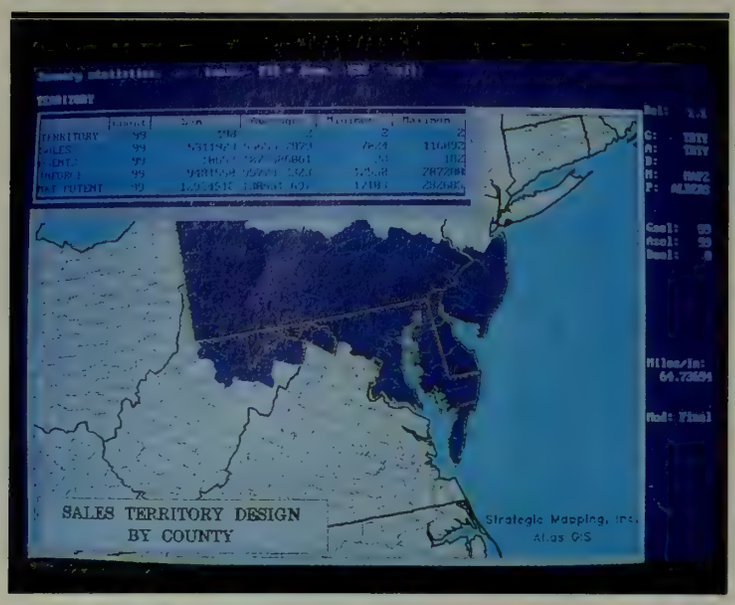
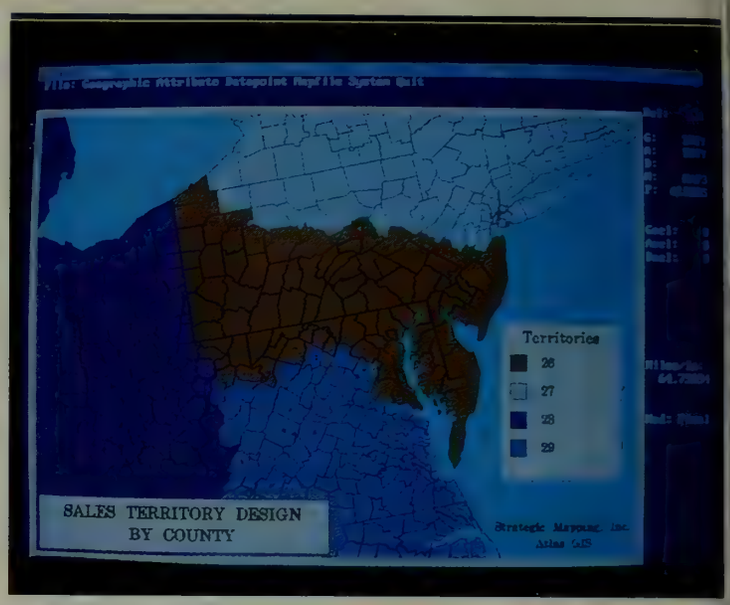
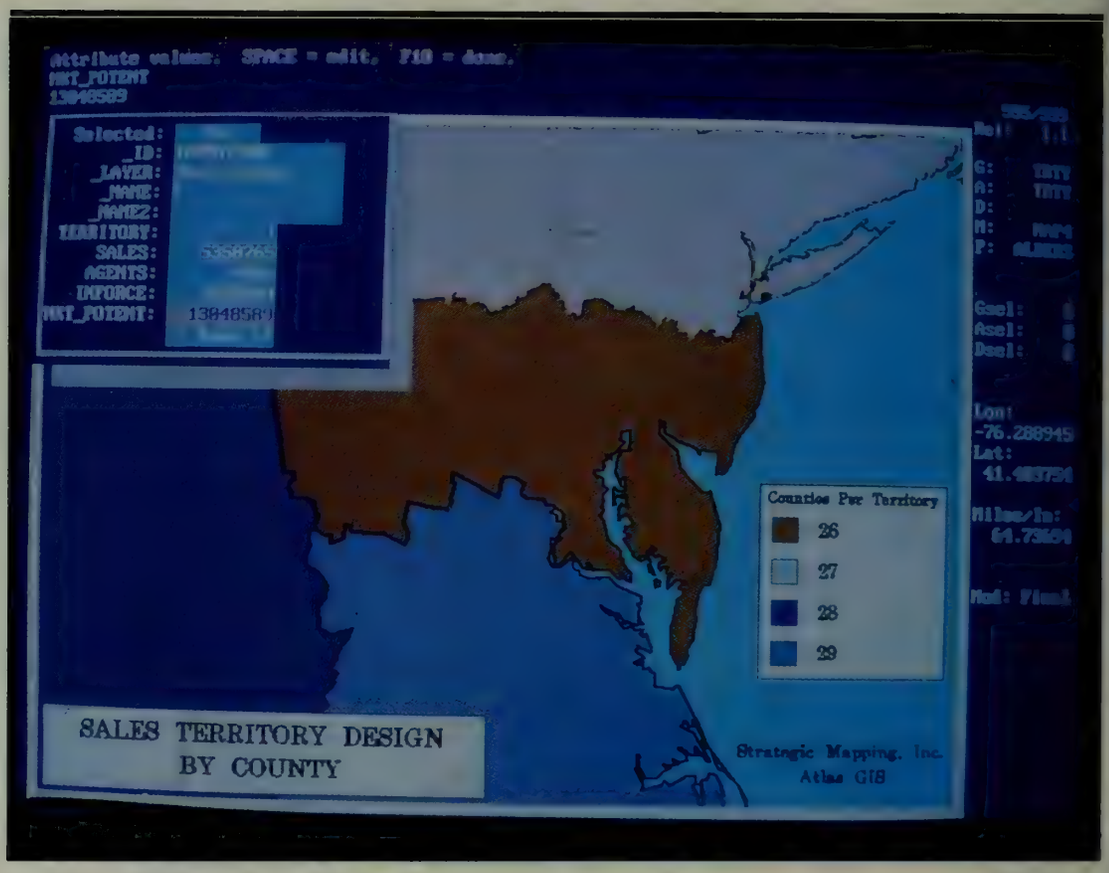


Photographs by Roy Lysaght



Creating sales territories
With software from Strategic Mapping, a marketer can create maps that break down a region by county, show which counties generate the most sales leads and calculate the demographic profile of the counties with the highest market potential.



branch closest to a new customer. GeoSystems also sells a route-plotting program for newspaper circulation departments and a database that correlates street addresses with average income levels.

It's getting easier for firms like this to track individuals and their habits. A recent Supreme Court ruling held that phone directories are not covered by copyright. Thus, marketers can buy compact disks of phone listings—or, if necessary, scan names in from printed directories—and massage the data at low cost. James Hilliard, director of marketing and business development at GeoSystems, foresees a world in which a homeowner could quickly locate the nearest plumber or a florist could compile a mailing list of everybody within a specific radius.

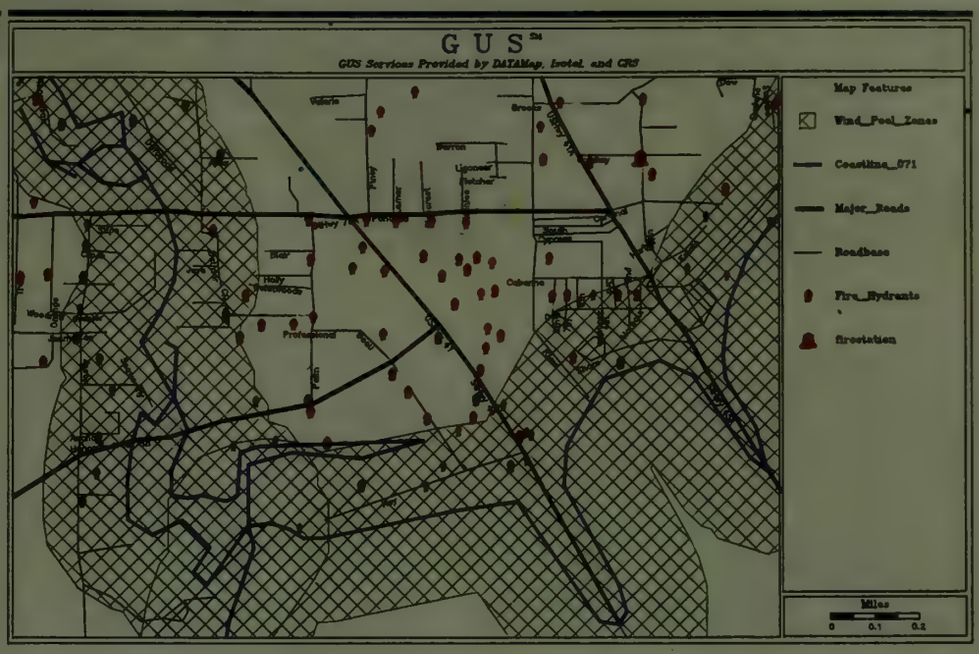
Tydac Technologies Corp. in Arlington, Va. produces software (also sold by IBM with its hardware) that helps businessmen visualize competitive data. "In mapping there are three basic axes, X for latitude, Y for longitude and Z for elevation. Substitute income or some other demographic measure for elevation, and you have a commercial GIS," says Terance Moloney, a product manager at Tydac.

A typical geographics assignment is to produce a "retail gravity" model, which weights demographic data according to the needs of a particular vendor. A seller of foreign auto parts, for instance, would weight his analyses toward owners of foreign cars, as gleaned from tapes bought at the motor vehicle department.

MapInfo Corp., a Troy, N.Y. company, sells mapping software for PCs. Says Michael Marvin, chief executive, "Quaker Oats found that 80% of their

Mapping hazards
The Geographical Underwriting System helps the property/casualty industry rate commercial and residential risks.

Datamap

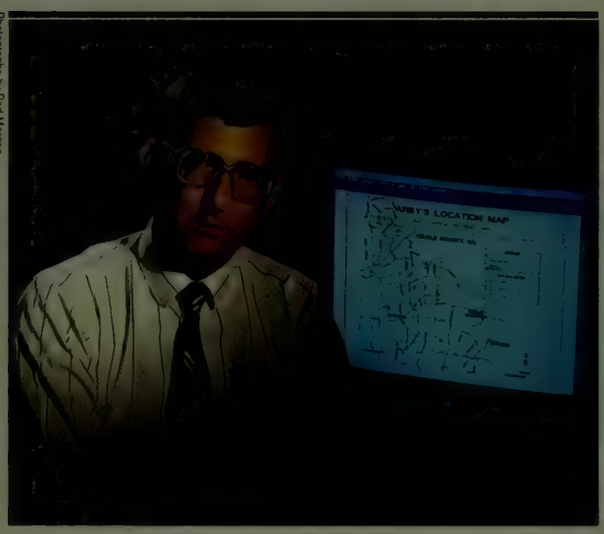


ethnic customers lived in 18 of their 55 sales territories with our system. Now, by visualizing their data, they can pinpoint their in-store and direct marketing efforts."

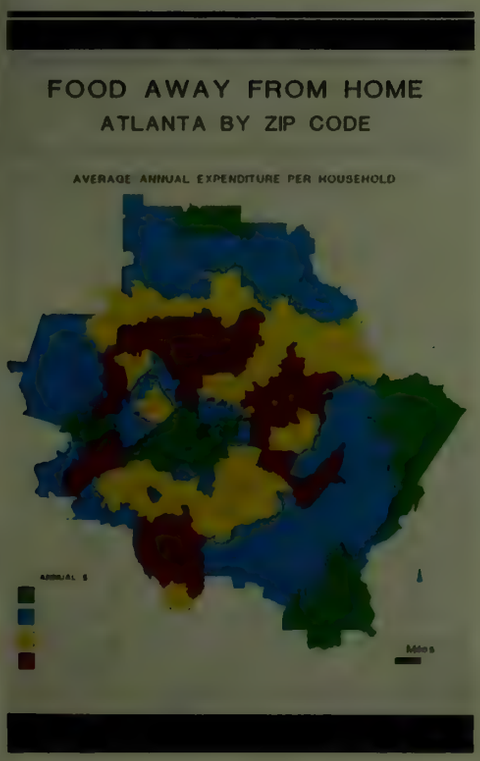
Environmental Systems Research Institute of Redlands, Calif. sells a system used by oil, lumber and mining companies to track geophysical formations. But now the firm is aiming at a broader market. "What we hope to do with this product is [give] American business a spatial spreadsheet," says Jack Dangermond, president of the firm. Spatial information will leave the desks of trained geographers and flow through corporations the way bar charts did when spreadsheets such as Lotus 1-2-3 caught on in the 1980s, he says.

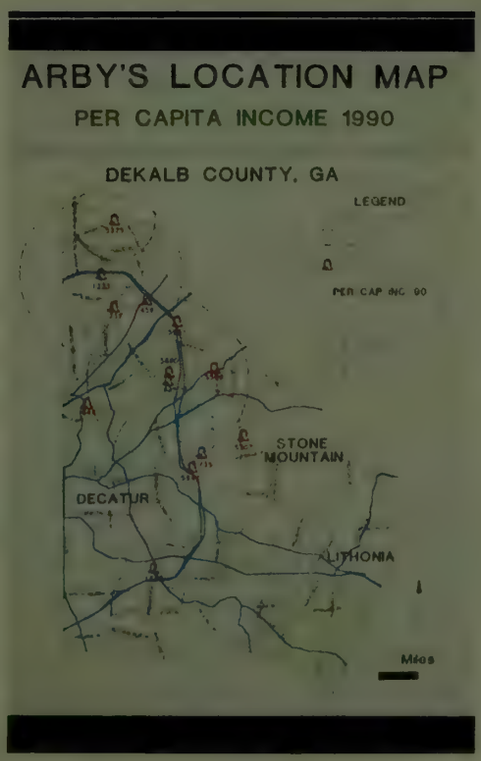
"The GIS business is at the point where the Wright Brothers were at Kitty Hawk," says Charles Foundyller, president of Daratech, a market research firm in Cambridge, Mass. "We know it works, and we know there must be a market for it somewhere, but can we imagine a 747 of an application?"

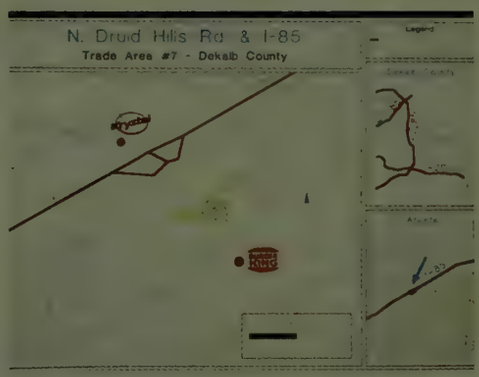
Photographs by Red Morgan

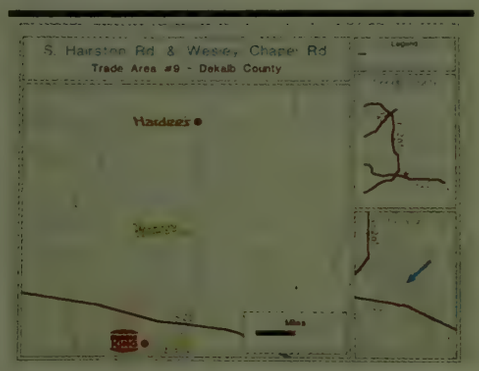


Arby's Vice President Hal Reid
A geographic information system helps him rank neighborhoods and households by their potential expenditure on fast food, and compare potential store sites on exposure to competition.









Technological monopolies

COMMENTARY BY MICHAEL GIANTURCO

Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

IN AN ECONOMY whose most notable features are layoffs and writeoffs, it is worth noting that some science and technology companies are triumphing. For the most part they are companies that have managed to avoid price competition. After watching the once profitable desktop computer business deteriorate into a bargain basement, investors can clearly see the value of patent-protected or sharply distinguished products and services.

In the lingo of investor Warren Buffett, these are companies with "moats" around them. They have managed to secure their markets against open warfare on the price front. It happens that in the current recession, two of Buffett's favorite moat-protected businesses—namely, broadcasting and newspaper publishing—are faring poorly. But this just shows that businesses have the economy as well as competition to worry about. The investment idea of a protective moat is still a sound one, and a few technology companies are proving its value all over again.

Consider the technology companies shown below, ranked in order of revenue growth for the current quarter versus the year-ago quarter. The nine companies are also selected for having achieved profit margins of 15% or better. I excluded companies with quarterly revenues below $15 million; tiny companies can loft tremendous percentage growth numbers without really accomplishing much.

Two technologies dominate the list: biotechnology and data communications. The systems software and semiconductor businesses are also represented.

Biotechnology companies—the ones with products—enjoy hard-won protection against competition. Patents, an arduous regulatory approval cycle for each product and the high cost of useful knowledge in this field ultimately protect these companies from pricing pressures.

These companies' profit margins reflect the fact that they don't compete much on price. All numbers are for the most recently reported quarter.

Protected turf

Company	Sales growth*	Net margin	Revenue ($million)	Earnings per share
Wellfleet Comm	206%	18%	$16	$0.20
Genzyme	138	16	33	0.22
Amgen	127	28	179	0.34
Cisco Systems	94	24	64	0.49
American Power Conv	60	17	27	0.41
Microsoft	57	25	581	0.75
Chiron	56	18	30	0.27
Xilinx	51	18	35	0.26
Sierra Semiconductors	49	17	23	0.38

*Over year-earlier quarter.

If you are tempted to buy into the wake of the selloff on biotechs, any of the three biostocks in the table (Genzyme, Amgen and Chiron) is a realistic investment. What makes each of them attractive is realized product revenues. High growth and high margins go hand in glove under these special circumstances.

Genzyme manufactures multiple diagnostic kits and specialized drugs. It has protected its markets by a classic niche strategy. The company has secured for itself many small markets for important but basically minor products. In no one of these markets is there sufficient business to attract major competition—but the sum of these small successful parts is a well-protected whole. It is an attractive stock at $45 or lower.

Both Wellfleet and Cisco Systems make networking routers. These are computer-language translators that enable computers of diverse manufacture (Apple, IBM, DEC) to communicate with each other on networks. *(See my Dec. 9, 1991 column.)*

American Power Conversion is also prospering from the networking boom. The Rhode Island company manufactures noninterruptible power supplies that protect networks during power outages. The caution to investors is this: American Power Conversion's success is a beacon for would-be competitors, and the power supply business does not have a very high threshold of entry. Wellfleet and Cisco, in contrast, are somewhat protected from competition, and to some degree from each other, by the difficulty and uniqueness of their respective technologies. Either company is a stock to accumulate.

Microsoft's ability to protect its turf has been widely remarked.

Xilinx makes customizable chips, and sells them along with a development system that allows its customers to do the customizing. Having sold the development system, Xilinx's aftermarket for chips is assured—it's as though you manufactured rifles, and also happened to sell the only caliber of bullets that fits them. Sierra has developed an unusual expertise in chips that handle both analog and digital signals. Growth products include chips for the new fax modems and caller ID telephones.

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If Santa didn't bring you a sports car, you may have to buy one yourself. More than ever there are some fabulous—and even affordable—numbers to choose from.

Good-bye, hair shirt

Chrysler President Robert Lutz in his Cobra

By Jerry Flint

THE IMAGE of a sports car has always been sweet. Youth, pretty girls, sunglasses, a caressing breeze in a top-down roadster.

Living with the sucker was a little harder. "Two wives ago, my wife said you have to be a sport to drive a sports car," says one auto writer. "She meant owning a sports car was a kind of hair shirt." The lady was right. It wasn't a breeze, it was a cold hard wind in the face and here comes the rain. Sometimes there weren't even roll-up windows. Air-conditioning? Dependable heaters? Wrong car.

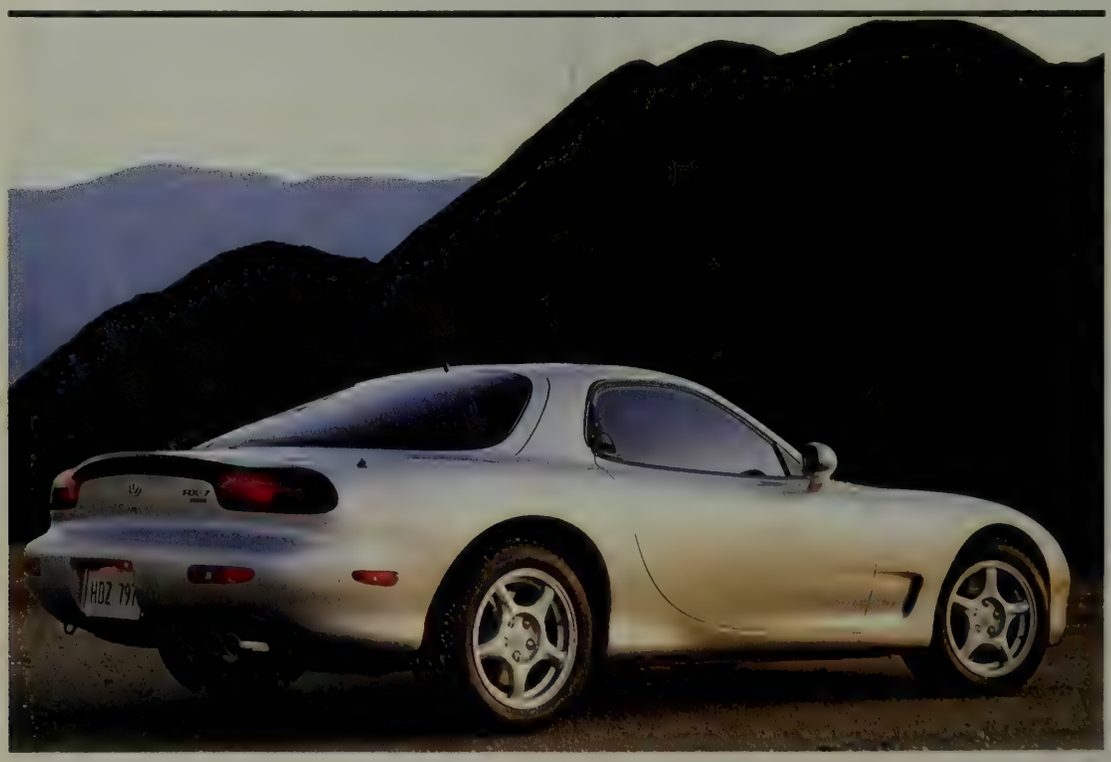
Most of the sports cars then were British—MG, Austin-Healey, Jaguar, Triumph—and any day the car ran without breaking down was a good day. On a bad day, go find parts and try and clean up the oil spots on the driveway. What made up for all the trouble was that it was fun.

Today's sports car buyers get all the fun and few of the hassles of the old days. Good-bye, hair shirt. Hello, problem-free, even luxurious—but still thrilling—driving down back-country roads.

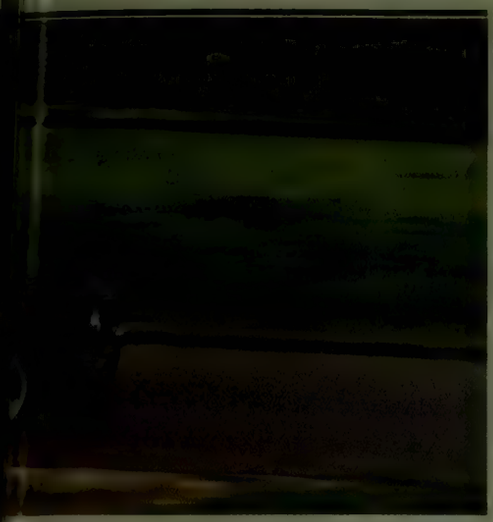
Not that it's easy figuring out what a sports car is nowadays. In the old days it was an open roadster with two seats, manual transmission, and a certain panache in looks and going around corners. Today's sports car may be a closed coupe, it might have an automatic transmission, possibly a backseat, definitely air-conditioning and a break-the-sound-barrier audio system. It might even be a pickup truck. It won't be roomy, but you won't have to risk your back getting in and out of the thing. The ride will be firm, but you won't get a sore behind. These cars will whip around any curve or corner you can find.

Speed is the one searing difference between today's sports cars and yesterday's. Today's are much faster—130 miles an hour, 140 and even 150 for the powerful closed coupes. And they hold the road at those speeds.

The bestseller right now is Mazda's Miata, a traditional two-seat roadster



Mazda's 255hp RX-7 on sale in March



John Crall

Toyota's two-passenger MR2

Porsche's new 968

Mazda's Miata, built for the true believer

Chevrolet's Corvette

Mitsubishi's 3000GT can be had with all-wheel drive

Nissan's 300ZX

Chrysler's coming V-10 Viper

The Spider Veloce from Alfa Romeo

with optional automatic transmission and detachable hardtop, listing at $14,800 (but $16,500 is a realistic price with common options like an audio system and air-conditioning). Some 30,000 were sold in 1991. Another two-seat roadster, the Alfa Romeo Spider, lists at $21,000, with 1,300 sold last year. A third roadster, the British Lotus Elan, lists at $40,000, but you can probably get one for closer to $30,000. Only a few hundred were sold in the U.S. last year.

GMC's Syclone, drive it to believe it

Then come the closed coupes like Toyota's two-passenger MR2, starting at $16,000 list (almost 10,000 sold) but more than $20,000 if you want to go turbo with a T-bar roof.

Another closed coupe, Mitsubishi's 3000GT, starts at $20,000 but quickly punches into the luxury-tax zone of $30,000 if you load it with all the good stuff like all-wheel drive and the six-speaker, 100-watt sound system. The Dodge Stealth is similar both in design and price; both cars have a small backseat. Nissan's 300ZX—the latest in Nissan's famous "Z" line, first launched in 1969—lists from $29,000 to $37,000. The only made-in-the-U.S.A. sports car, Chevrolet's Corvette, starts at $34,000.

If it lives up to the notices already given it by test drivers in the automotive press, Mazda's new two-seat RX-7 coupe, with 255 horsepower, will muscle its way nicely into the field. Priced around $30,000, the RX-7 is due to arrive in March.

Acura's 155mph NSX

At the high end are two-seaters like Honda's Acura NSX, a 155mph, aluminum-bodied closed coupe starting at $63,000, and Chrysler's Viper, arriving in the spring, with a V-10 engine. Price: $50,000.

Porsche's new 968 line—introduced in the American market last fall—runs from $40,000 to $54,000. Porsches top out at $99,000 for the 911 Turbo.

That about does it for traditional sports cars, but hybrids abound, too. Honda's new CRX, coming in fall, could be a sports car in its high-performance model, but the low-priced CRXs don't have the punch. Or take Subaru's new SVX coupe. With automatic transmission only and backseat, it has so much room and comfort it's hard to call it a true sports car.

If you pine for the old days but don't want to buy a used sports car, you can make your own throwback. Replica kits of the old 427 Cobra, an open roadster of the mid-1960s, are on the market. "The rustic simplicity that was the Cobra's downfall on the new-car market is exactly what makes it work as a kit," says Patrick Bedard of *Car and Driver*. "You can go out to your garage and build a kit 427 Cobra that's absolutely as leaky and noisy and drafty as the real one." Why bother? Answers Bedard: "These Cobras are strutting, overpowered, libido-tickling throwbacks to a time when too much was just about right." Cost: from $20,000 (without the engine) to $60,000, fully assembled.

And what about a sports truck? GM saw you coming. The GMC Syclone is a two-seat pickup with a 4.3-liter, 280-horsepower V-6 that does 0 to 60 in less than 5 seconds and, in GM's words, "its performance rivals top sports cars." And you can throw a half-cord of wood in the back. ■

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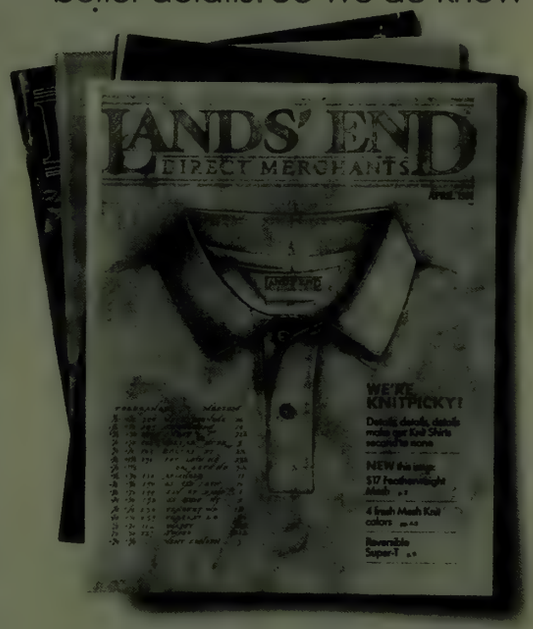

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Peter versus Goliath

PUBLISHER Peter Diamandis, who made a fortune in 1987 by buying, then quickly selling, two dozen CBS Magazines titles, is about to take over troubled TVSM, Inc., publisher of the monthly *Cable Guide* magazine and a weekly, *TV Time*. TVSM ran into trouble in 1990 after spending $5 million to expand. The advertising wasn't there to support the expansion, and Chase Manhattan Bank, which had lent $60 million to TVSM, ended up with 80% of the company's equity. Chase asked Diamandis if he could salvage TVSM.

Diamandis figured he could build circulation by getting cable system operators to take a minority stake in the company and sell subscriptions to their customers. Easier conceived than executed. "The cable operators have been wildly competitive for years," says Diamandis. "Getting them to do something in tandem is difficult."

But Diamandis has persisted, with the result that six cable operators, with about 19 million subscribers—a third of the country's cable audience—are on the verge of signing a deal with the publisher. Under it, the operators would be given larger equity positions in TVSM if they meet circulation targets for the magazines. Eventually, the cable operators could wind up with as much as 49%. The other 51% would be split among Chase, a handful of individual investors and management. Assuming an agreement is signed, TVSM's magazines are likely to become rough competition for *TV Guide*, owned by Rupert Murdoch's News Corp.

–EDWARD GILTENAN

Lena Bertucci

ABOVE:
Publisher Peter Diamandis
A new thorn in Rupert Murdoch's side?
LEFT:
Investment banker Gilbert Harrison
"Somebody has to suffer."

Silver lining

GILBERT HARRISON has a straightforward explanation for the pain afflicting many of the nation's retailers. "Over the last ten years, retail space nationwide has almost doubled, but retail sales have gone up only about 20% [adjusted for inflation]," he says. "So somebody has to suffer."

Harrison, 51, is founder and chairman of Financo, Inc., a Manhattan-based investment banking boutique that advises apparel companies, department stores and other retailers. Harrison started Financo in 1971, merged it into Shearson Lehman Hutton, Inc. in 1985, then bought the firm back in 1989.

Financo, says Harrison, has helped consummate more than 200 retailing mergers and acquisitions since 1971 for such clients as Petrie Stores Corp. and Warnaco, Inc. Last year Financo helped big Melville Corp. in three transactions, including buying Foot Action, Inc., a southern chain of athletic-shoe stores, for $46 million.

Some of Harrison's past deals were part of the excesses of the 1980s. While part of Shearson, he and his associates represented Hooker Corp. in its acquisition of Bonwit Teller from Campeau Corp. for $101 million in 1987; Hooker is now in Chapter 11. As an adviser to Federated Department Stores, Harrison also assisted in the sale of Federated to Campeau for $6.6 billion in 1988; Campeau, too, is in bankruptcy.

Harrison says he sees a silver lining in the current retailing downturn. "The marginal retailers get blown out of the picture," he says, "but that enables the better companies to get bigger and stronger." –JASON ZWEIG

Power player

STARTED just three years ago, U.S. Generating Co., of Bethesda, Md., is probably already the country's fourth-largest independent power outfit. Like other independents, it builds generating capacity and sells its power without the rigorous rate-of-return regulation that restricts a public utility; independent power producers often earn 30% and more on the shareholders' equity.

U.S. Generating is a joint venture between two companies that know something about power: Pacific Gas & Electric and Bechtel Group, the giant construction firm. Its boss is Joseph P. Kearney. A tall, lanky one-time college track star, Kearney, 46, trained as a nuclear engineer at Massachusetts Institute of Technology, rattled around in government (the White House Chief of Energy Technology) and private industry (Fluor and Coastal Corp.) for 20 years and then helped PG&E and Bechtel get U.S. Generating off the ground.

One smallish project, a 37-megawatt plant in Colstrip, Mont., is already in operation. Two other plants are under construction, a third is getting under way and five others are about to go to construction. Altogether, Kearney has 2,200 megawatts of power on his construction plate, worth maybe $4 billion. That accounts for a fair piece of the 40,000 megawatts that the Department of Energy forecasts the independents will operate by the end of the decade.

Kearney's first project was designed to generate 37 megawatts of electricity, but plants scheduled for completion starting in 1993 will be able to deliver 200 megawatts and perhaps even 600 megawatts. Bigger plants will not only produce cheaper energy but also give U.S. Generating a stronger voice as the independents fight for access to the utilities' transmission lines (FORBES, *Dec. 23, 1991*).

"Independent power producers," vows Kearney, "are going to change the whole utility environment."

–JAMES COOK

Michael Mella

Maxxam Inc. Chairman Charles Hurwitz
Making Kaiser Aluminum pay and pay.

Joseph Kearney, president of U.S. Generating
Less regulation, superior returns.

Aluminum cow

HOW MANY ways to milk a cow? Ask Houston's Charles Hurwitz, the raider who controls holding company Maxxam Inc. In 1988 Maxxam paid $930 million for venerable Kaiser Aluminum Corp. When the dust cleared, Hurwitz had put down only $50 million in cash, borrowing the rest against Kaiser's assets and with no recourse to Maxxam. By last summer Kaiser had sent Maxxam $87 million in cash dividends plus another $55 million cash in tax benefits and other proceeds.

Then in July Hurwitz sold 13% of Kaiser to the public at $14 a share. That brought another $70 million in cash to Maxxam, making its total take from Kaiser more than $210 million. But Hurwitz wasn't through. In November, using a portion of its remaining Kaiser stock as collateral, a Maxxam subsidiary sold to the public $150 million of four-year 12¾% notes, in the process shifting some debt off the parent company.

Sad to say, Kaiser's new public shareholders haven't made out quite as nicely as Hurwitz has. With the economy weak and the aluminum business down, Kaiser stock, recently 9⅞, has shed 29% of its value since last summer's public offering. But even at these levels Maxxam's 87% stake in Kaiser is still worth $494 million. All in all, not a bad return for Hurwitz on a $50 million investment three years ago.

–WILLIAM P. BARRETT

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BY ERIC S. HARDY

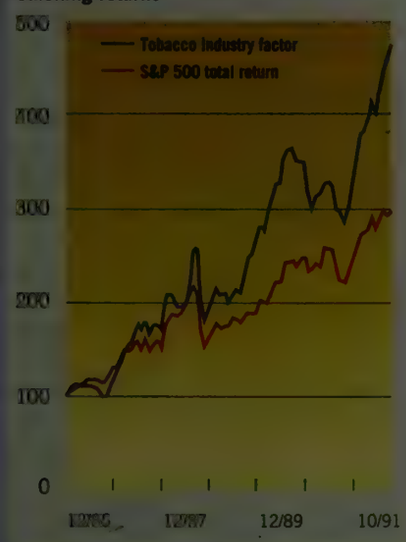
Is there any reason to be optimistic about the economy and the stock market in 1992? Yes, according to Bear, Stearns chief economist Lawrence Kudlow. Argues Kudlow: "A declining [inflation rate] has the same monetary effect as a tax cut, yet doesn't—even in the short term—reduce government revenues." He explains that a lower cost of living gives consumers more discretionary income, which also happens when taxes are reduced. But lower taxes increase the budget deficit in the short term. Kudlow predicts economic growth of about 3% in 1992. That's slow compared with a typical recovery, but it still represents economic expansion. He says inflation should run at or below 3% this year.

Kudlow is rather aggressive in both his enthusiasm for the market and the kinds of stocks he's recommending—cyclicals like metals, chemicals, construction, autos and banks.

Special focus

Some sin industries do better than others. From January 1985 through October 1991 the total return on Barra's tobacco industry factor was 61% better than the S&P 500 return. The alcohol industry's total return exceeded it by 54%. But the figure for the gambling industry was only 11% better than the market.

Smoking returns



The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	1.2%	18.4%	-4.2%
Sharpe/Barra Growth index[1]	3.1	25.1	-1.4
Sharpe/Barra Value index[2]	-0.3	13.7	-6.3
Dow Jones industrials	-0.2	10.7	-5.9
S&P 500	1.3	15.9	-4.0
NYSE	1.1	16.9	-4.1
Nasdaq	2.5	44.3	-3.6
Amex	-1.1	19.4	-6.7
EAFE[3]	-1.9	-1.9	-22.2
CRB index[4,5]	-2.6	-4.9	-22.9
Gold[5]	-2.6	-4.1	-28.7
Yen[5]	-0.5	-2.3	-21.2
Oil[5]	-6.6	-24.4	-51.5

The best and worst performing stocks[6]

Best	Price	2-week change	1991 EPS[7]	Worst	Price	2-week change	1991 EPS[7]
Vestar	19 1/4	66%	$-0.28	Live Entertainment	2 7/8	-62%	$1.53
Alkermes	16	39	-1.07	Oil Financial	6 7/8	-47	1.83
PacifiCare Health Sys	32 1/4	39	2.05	Plains Research	14	-39	-0.16
Mill Pharma	17 1/4	37	-0.97	Sanifill	13 5/8	-38	1.03
TZ Medical	51	35	1.37*	Kentucky Central Life Ins	5 1/8	-36	1.54

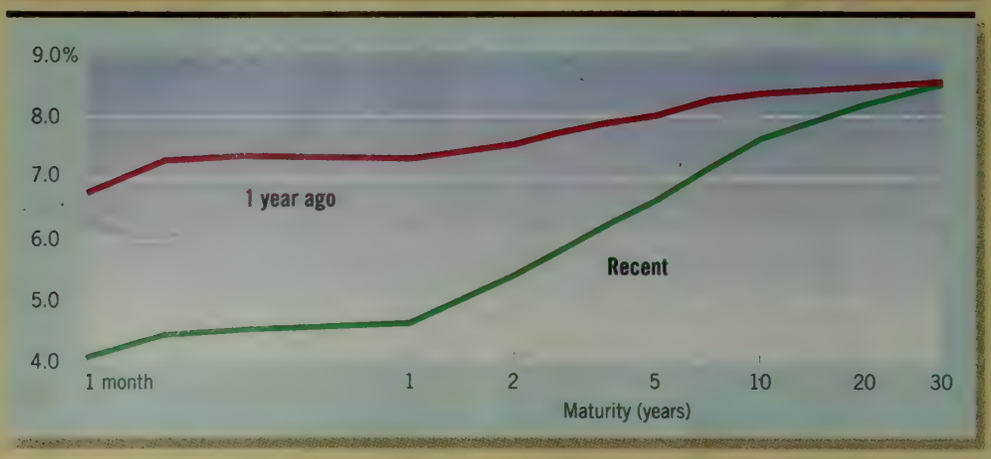
The best and worst performing industry factors[6,8]

Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Air transport	6.8%	16.6%	Coal & uranium	-3.9%	-1.1%
Cosmetics	6.3	43.1	Misc. mining, metals	-3.9	10.7
Pollution control	6.2	4.5	Iron & steel	-3.6	1.3
Soaps, houseware	5.0	25.1	Paper	-2.8	7.9
Telephone, telegraph	3.9	14.0	Photographic, optical	-2.6	7.5

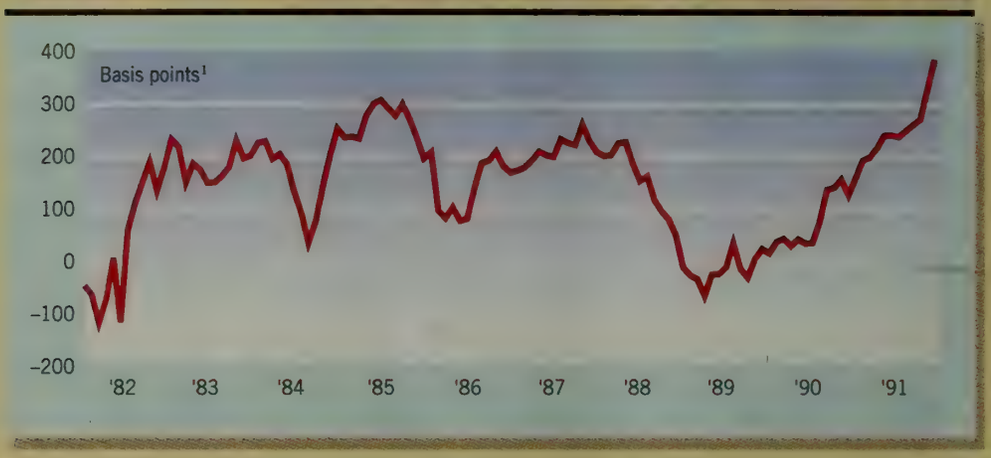
Note: Data for period ending 12/12/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. *1992 estimate. Principal source: Barra, Inc., Berkeley, Calif.

BY ERIC S. HARDY

Yield curve



30-year rate minus 1-year rate



Yield vs. inflation

The wonderful returns that bond buyers enjoyed in 1991 look pretty close to unrepeatable in 1992. For starters, interest income will be lower. A five-year Treasury note, which was paying 8¾% a year ago, now yields about 6¼%. As for capital gains, which on Treasurys can come only from a decline in interest rates, the question is how much further rates can fall at various points along the yield curve.

What about corporate bonds, which also enjoyed a rally in 1991? In that sector, capital gains can come from two sources: declines in interest rates and improvements in perceived credit quality. Both of these factors—plus the high coupons on the bonds—contributed to the 12-month 43% total return on junk bonds. The rally could continue, but, as with Treasurys, a repeat performance in the junk sector is not likely.

Martin Fridson, a junk specialist at Merrill Lynch, offers a reason the market should at least be less risky than it was in the late 1980s. "The high-yield market collapsed because the firm that was perceived to dominate the market [Drexel Burnham Lambert] also collapsed," says Fridson. "Investors now feel the market is much less concentrated."

The shortest-maturity Treasury bills are now yielding only 4¼% on a bond-equivalent basis (nominal "discount" yields are a little lower). How unhappy should today's bond buyers be with this return? It depends on their outlook for inflation. Consumer prices in November were 3% higher than a year earlier. If inflation stays that low, then a tax-free account can earn over 1% of real return from T bills. But a taxable buyer in the 32% bracket would not quite break even after taxes and inflation.

There is a way to get a positive real aftertax return: Take some risk. A high-quality 20-year municipal bond yields about 6.5%—an after-inflation yield of about 3.5%. The risk is that inflation will pick up again, destroying more of that 6.5% coupon and probably causing a sharp price decline in the bond as well.

Spread over Treasurys

Security	Basis points[1]
AA corporates	58
AAA industrials	63
Ginnie Maes	89
Junk corporates[4]	686
Municipals[5]	–117

Total returns

Security	1 year[6]	3 years[6,7]
AAA corporates	15.2%	11.9%
Ginnie Maes	15.0	13.1
Junk corporates[4]	42.7	10.5
Municipals[5]	10.3	9.7
Treasury bonds	13.3	11.6

Note: Except where footnoted, all information provided by Berkeley, Calif.-based Barra, a financial consulting firm. [1]A basis point is equal to one-hundredth of a percentage point. [2]Yield on ten-year Treasurys. [3]The trailing 12-month increase in the Consumer Price Index, through 11/29/91. [4]Source: First Boston. [5]Source: Shearson Lehman Brothers. [6]Data through 11/29/91. [7]Annualized

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FORBES MAGAZINE'S Laucala ISLAND

Bergstrom Capital has one of the most consistently outstanding records among funds, but its manager, Erik Bergstrom, would rather nobody knew about it.

No applause, please

Greg Couch

YOU'VE HEARD of the January effect—the supposed tendency of small-company shares to spurt upward at the beginning of the year. Robert Frey, a financial planner in Seattle, has discovered a September effect. In the summer, he says, shares of the closed-end fund Bergstrom Capital are often available at a discount or small premium to their underlying net asset value. By mid-September, after the fund has appeared on the FORBES honor roll—as it has for eight years running—the discount shrinks or the premium widens. If you want to get shares, Frey says, buy them in midsummer.

Considering how good the fund is—with a 24% compound annual return over the past 15 years, to the market's 14%—why aren't there avid buyers for Bergstrom Capital all year round? Because its manager, Erik Bergstrom, prefers to hide his light under a bushel. The $102 million (net assets) fund doesn't advertise, although it mails out copies of its spare annual report on request (505 Madison Street, Suite 220, Seattle, Wash. 98104). The fund's official place of business is an austere accounting office shared with four other firms. N celebrities or mascots pitch Berg strom Capital shares. The reclusiv Erik Bergstrom, 52, who works fro his home in Atherton, Calif., neve gives interviews.

Shareholders can glimpse this tal graying money manager once a yea at Bergstrom Capital's annual meet ing at the Rainier Club in Seattle. Say Frey, "You get the feeling that h wouldn't be there if it wasn't require by law." Bergstrom even leaves to th fund's president the job of writing th letter to stockholders in each of th fund's reports.

Who is this Bergstrom, and how did he put himself at the top of the honor roll? The sketchy biographical details available include the fact that he worked just three years as a portfolio manager at American Express in San Francisco before leaving in 1970, at age 31, to become a "private investor." Three years later he began a siege on a small closed-end fund called Diebold Venture Capital. The fund had been doing poorly, and its shares lingered at a discount of more than 70% to net asset value. Bergstrom started buying.

By 1976 Bergstrom's group, which included his roommate from Whitman College in Walla Walla, Wash., his artist wife and his mother, had bought up $1.3 million of Diebold shares and waged a winning proxy battle. It was a good investment. Bergstrom's family's stake, including that of a foundation through which he supports population control projects, is worth $30 million now.

The original investment may have been a pure value play—how can you go wrong buying dollars for 30 cents each? But Bergstrom quickly adapted to the technology and growth themes inherited from John Diebold, the founder of the fund. Diebold, for instance, had taken a very early flier on biotechnology; Bergstrom kept up the tradition and has recently made a killing in Amgen.

Apart from his shyness, Bergstrom exhibits other traits not common among money managers. One is frugality. On capturing control from John Diebold, Bergstrom moved the fund out of its Park Avenue headquarters in New York and lowered the advisory fee. This sort of thing does

not take place very frequently. It is akin to a congressional enactment to lower congressmen's pay.

Another unusual trait is humility. Since he took over, Bergstrom has shared the stock picking work, and split the advisory fees, with excellent subadvisers. One is RCM Capital Management, a well-known pension adviser in San Francisco. Another is Franklin P. Johnson, now 63. Johnson is a venture capitalist and an officer of two computer companies that Diebold got the fund into at the venture capital stage: SBE, a manufacturer of communications controller boards that go inside computers, and Boole & Babbage, a software firm. Coincidentally, Johnson was also for many years a neighbor of Bergstrom's in California.

Johnson visited the venture companies the fund owned and reported back to Bergstrom. "Erik has a very logical mind," says Johnson. "He wanted my opinion. But then he asked lots of quantitative questions about the potential of the market and the product."

Bergstrom has Johnson—and, in a way, John Diebold—to thank for his investment in the hot biotechnology company Amgen. Diebold had made an early, venture-stage investment in Cetus, a biotech holding that Bergstrom chose not to sell—perhaps because Cetus was not yet public, and it would have been difficult to unload the shares. Cetus did go public in 1981, and Bergstrom Capital's shares jumped to almost eight times their $250,000 cost. So Bergstrom was all ears when Johnson started gushing about Amgen. Bergstrom Capital started buying Amgen shares in 1981 and kept buying. At the end of September, by which time the fund had begun to liquidate its position, it held Amgen shares worth $36 million that had cost it $7 million.

Bergstrom counterbalances the chancy biotech stocks with a healthy dose of conservative growth stocks, many of them, it appears, recommended by RCM Capital Management. Six of Bergstrom Capital's ten largest holdings also show up on lists of RCM holdings: Amgen, Southwestern Bell, Baxter International, U S West, Bristol-Myers Squibb and H&R Block. Other names that Bergstrom and RCM have in common are Coca-Cola, W.W. Grainger, Glaxo Holdings and Alco Standard.

Over the years Bergstrom has owned the convertible securities of several health care companies: Amgen, Cetus, Baxter International and—one of Bergstrom's few losers—Comprehensive Care Corp. When Bergstrom latches on to a good growth stock, he'll hold it for a long time; the fund's turnover is a tiny 20% a year. The shares in H&R Block that Bergstrom started acquiring in 1977 are now worth ten times their cost. Recent additions to the Bergstrom portfolio include Advo-System, the junk mail distributor; H.B. Fuller, an adhesives firm; and Harper Group, a freight forwarder.

But one of the best value plays of all has been Bergstrom Capital's own shares. Since 1977 Bergstrom Capital has bought in 23% of its shares at a discount, thereby boosting the net asset value of the remaining shares.

Now that Bergstrom Capital is trading at an 18% premium over its $95 net asset value per share, its crafty manager is turning the tables and having the fund sell shares—in a sense, the same shares the fund bought in earlier at a discount. In a rights offering to shareholders that will probably be completed in February, the fund plans to offer $13 million of shares at a discount to the market price but, it is hoped, at a premium to net asset value. If that happens, the rights offering will also raise net asset value per share.

A lot of fund sponsors are motivated primarily by their desire to maximize their take through management fees. Bergstrom seems to be motivated primarily by a desire to maximize returns to shareholders, of which he is one. Other closed-end funds with large insider ownership that are worth taking a look at are Allied Capital (FORBES, *Dec. 16, 1985*) and General American Investors, which is a Bergstrom Capital holding. —S.O. ■

Buy and hold

Company/business	Bergstrom holding ($mil)	Recent price	EPS 1992 estimate	Latest 12-month P/E	Latest 12-month revenues ($mil)
Amgen/genetically engineered drugs	$36.5	62⅝	$1.74	895	$612
Southwestern Bell/regional phone service	3.6	61⅛	4.08	17	9,256
Baxter International/hospital and laboratory products	3.4	38⅛	2.35	19	8,705
U S West/regional phone service	2.9	34⅞	3.06	12	10,206
Huntingdon Intl Holdings (ADR)/drug testing	2.3	18¾	1.40[2]	15	210
Quantum Chemical[1]/specialty chemicals	2.2	58½	—	—	—
Bristol-Myers Squibb/drug development	2.2	78⅝	4.72	21	10,958
H&R Block/tax service	2.0	35⅝	1.53[3]	27	1,259
Boole & Babbage/software development	1.7	13	0.78[2]	NM	101
General American Investors/closed-end fund	1.5	25¾	—	30[4]	—

[1]Quantum Chemical 6s of 2011, convertible into Chiron stock. [2]Estimate for year ending Sept. 30, 1992. [3]Estimate for year ending Apr. 30, 1992. [4]Weighted average P/E of stocks in fund portfolio. NM: Not meaningful.

Sources: Morningstar, Inc.; Forbes.

When Bergstrom Capital latches on to a winner, it holds for a long time. Of the ten largest positions in its portfolio, only one, the Quantum Chemical convertible bond, is a loser, and all but one have been on the books for at least five years.

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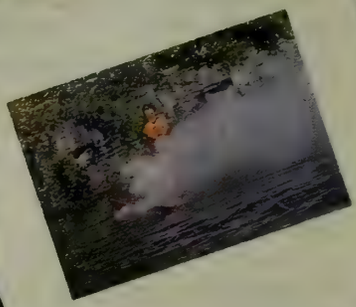

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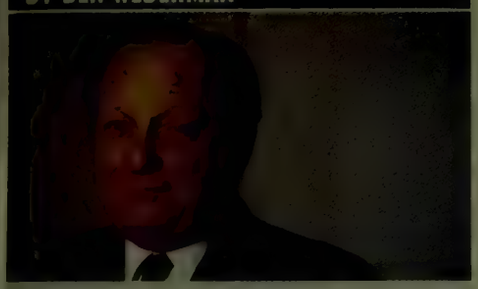
The yield curve is going to straighten out. Time for investors to move out into longer-term bonds.

Throwing a curve

BY BEN WEBERMAN



Ben Weberman is a columnist for FORBES magazine.

A YEAR FROM NOW, these 7.8% Treasury bonds and 6.5% municipals are going to look positively attractive. That's because the ultimate remedy for this deep recession is going to have to be strong: Monetary officials will be anxious to jump-start the economy. Short-term rates will decline. The yield curve—typically the spread between a 3-month T bill and a 30-year bond—will remain steep, and will probably steepen. Then all yields—short and long—will fall.

How far? My prediction is that sometime in the first quarter Fed funds are going to be trading in the 3%-to-4% range, compared with 4.5% currently. T bond yields will come down to 6.5%.

Seem unlikely? You have to go back only to 1961 to find that Fed funds traded regularly as high as 3% and lower than 1%. Treasury bonds were close to 4%.

The current 3-month bill/30-year spread is 350 basis points. That's near the alltime high of 360 basis points reached in September 1985, caused by market expectations of higher inflation. The curve was flat in the beginning of 1982 and had been a negative 2% in 1980, when the bill actually paid more than the bond. That was a time of severe Federal Reserve credit restraint.

Given the current dose of depressing economic news, Brian Fabbri, chief economist with Midland Montague Securities' New York subsidiary, figures the Fed will move soon to cut rates. "Yields on short- to intermediate-maturity securities should continue to decline," he says, "dragging with them, but only partially, long-term yields."

Why only partially? Helping to prop up long-term yields, says William Brachfeld, executive vice president in the fixed-income group of Daiwa Securities America Inc., is the strong flow of money out of the U.S. into the long-term bonds of foreign countries where yields are more attractive. Ten-year U.K. bonds pay 9.64%, German bonds pay 8.36% and French issues pay 8.7%. Even Japanese yields of 6% are attractive when weakness of the dollar is taken into account, Brachfeld says.

Eventually this flow of funds will reverse and provide billions of dollars of demand for long U.S. Treasurys. That will lower yields at the long end relative to short issues.

But long-term rates will inevitably ease anyway, as the Fed pulls down the money market end of the maturity spectrum. Later these yields will stabilize for a time. The next change will take place when the yield curve starts to flatten as the 3-month-to-30-year spread narrows. Quite possibly in a strong economy, rates will rise a little. But the increases will be small and will not bring the yield curve back to where it is today.

To take advantage of this situation, an investor should buy notes in the 10-year range, where the yield now is 7.20%. Not a bad return over the next decade. Or try zero coupon, 30-year Strips, with a current yield of 8.25%. The 30-year zero brings a yield 40 basis points more generous than on full, interest-bearing bonds of the same maturity.

Investors should understand that the return consists only of price accretion. There is no cash payment before maturity. However, the annual accretion of price from the discount purchase cost to 100 at maturity is subject to annual income tax even though no cash is received.

So these issues are more suitable for tax-sheltered accounts such as IRAs and Keoghs. Because the price of any zero coupon security moves sharply as market rates of interest change, there is potential for substantial capital gains as bond yields come down.

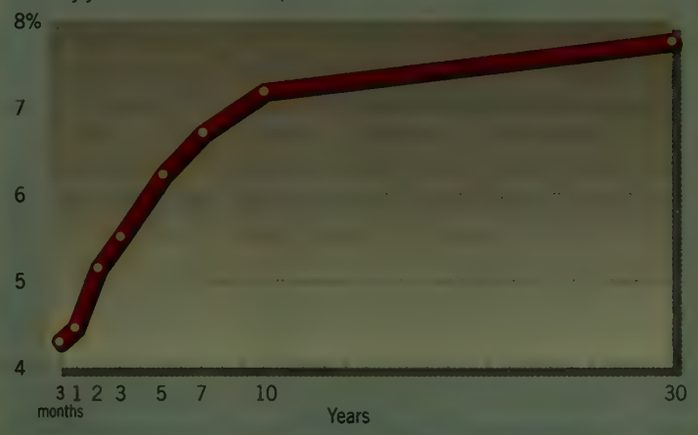
A May 2021 Strip costing 10.48 per 100 of face value to yield 8.10% would rise in price to 12.34 if the yield slid within the next year or so to 7.5%. The price would jump to 14.46 if the yield were 7%. Over a one-year period, the total return would be 26% with the yield at 7.5%, or would be 44% if the market yield fell to 7%.

It's not often that the financial signs are as clear as they are today. They are all pointing in the same direction. Toward lower long-term interest rates. ■

The steep yield curve shown here may soon begin to flatten out—as falling short-term rates drag long-term yields down, too. To lock in good returns, investors should buy notes in the ten-year range.

Near-record rate spreads

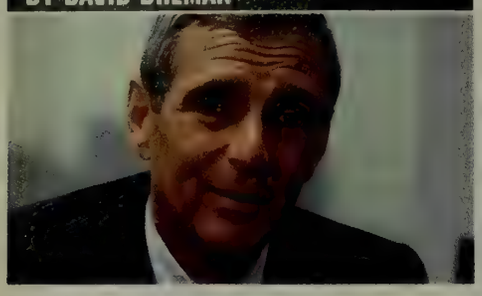
Treasury yield curve as of Dec. 6, 1991



Cyclical stocks are lower than they were after the 1987 crash. There are some outstanding buys in airlines, papers and autos.

Bermuda Triangle

BY DAVID DREMAN



David Dreman is chairman of Dreman Value Management, L.P., Investment Counsel, New York, and author of *The New Contrarian Investment Strategy.*

CYCLICAL STOCKS—airlines, autos, forest products et al.—are now as cheap relative to the market as at any time in the postwar period. As a group these stocks are actually selling lower than after the October 1987 crash. These groups present good buying opportunities today.

Normally, cyclical and noncyclical groups trade fairly close to one another. Not so in the past four years. With the exception of several months in early 1988 when cyclicals outperformed briefly, the gap between cyclicals and noncyclicals has widened steadily. The battered cyclical groups are 10% lower today than they were after the 1987 crash, even though the S&P 500 is up 52%. The disparity is the widest on record, with cyclical performance actually deteriorating again in the past eight months. Through November, noncyclicals were up 15% for 1991, compared with 5% for cyclicals.

With 20-20 hindsight it is not hard to see why cyclical stocks did so badly in recent years. First there was the impending recession, which drove investors away from cyclicals as early as 1988, then the recession itself, which led investors to seek safety and stability. Finally, growing concern that the downturn would be a "double-dip," or worse, has resulted in many cyclicals dropping sharply again.

All of which may have created an extraordinary buying opportunity. As the economy recovers, these companies should get a lot of bounce from the cost-cutting in recent years as well as from comparisons with quarters in 1991 that showed large restructuring charges.

When the turn does come, cyclical earnings should rise sharply, taking these groups appreciably higher, while the growth stocks should at best tread water.

It is hard to buy the cyclicals now because they look as if they are in the middle of a financial Bermuda Triangle. History tells us that the time to buy is when everyone is afraid to buy.

Here are my own preferences for buying now among the cyclicals:

Airline stocks have been in a steep decline. This frightened market is ignoring some powerful secular changes taking place that will result in good earnings increases in the years ahead. The most important is the sale at near-giveaway prices of lucrative foreign routes by carriers struggling to survive or that have gone under. The beneficiaries have been the financially strong "big three"—AMR (American), Delta and UAL. Too, fare discounting should ease and yields increase with an improving economy and shrinking competition as more troubled carriers fade away.

AMR (63), the largest domestic airline, is an aggressive buyer of distressed international routes. The company should move from a loss last year to being solidly in the black in 1992, with results continuing to pick up in the next few years.

UAL (127), like American, has been an aggressive acquirer of foreign routes at fire-sale prices. The airline will report a loss for last year and the current fiscal quarter. Even so, earnings should bounce back to $8 per share this year and in a good year top the $14.96 earned in 1989.

GM and Ford have slumped to 12-month lows in recent weeks. Major cost-cutting and a tight rein on inventories should result in a substantial swing in the bottom line when consumers come back to the showrooms. *Ford* (25) is currently hurting not only from weak domestic sales but also from the poor results of its normally highly profitable European and financial groups. The company is likely to show modest profits this year, with substantial improvement in 1993. Ford has also recently bolstered its balance sheet with a large $2.3 billion preferred issue.

GM (28) fared the best of the big three last year, holding on to market share. The company is sharply reducing both its blue- and white-collar work force, and has a strong new product line, which, with further planned introductions, could result in a gain in market share this year.

Pulp and paper is another group that has been pummeled in recent months because of disappointing results and the fear of a long recession. *Scott Paper,* the world's largest manufacturer of toilet paper, paper towels and napkins, looks interesting here. The stock seems oversold at current levels, down from a 12-month high of 48 to its current price of 32. Earnings should approach $2.40 per share in 1992, and with large, new capacity, worldwide income should move well above the previous peak of $4.11 per share in the next few years.

Chemicals are also being smacked in the current environment. Earnings for *Dow* (50) dropped to about $4 per share last year, down from a record $9.20 in 1989. With a rising economy and above-average growth from 70%-owned Marion Merrell Dow, earnings should be up 10% to 12% this year, with accelerating gains in the next few years. ■

Investment letters beat the market more often with their "shorts" than with their "longs." What are they recommending for shorting now?

A walk on the short side

BY MARK HULBERT

Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

"NEGATIVE Newsletter Scores Big" read the *New York Times'* headline over a recent story about the *Overpriced Stock Service*, a service for short-sellers edited by Michael Murphy and Lissa Morgenthaler.

I felt a pang of guilt. I did return a *Times* reporter's call about this letter. But I guess the voice mail system must have swallowed my message. If I had persisted, maybe I could have saved the *Times* some embarrassment. The *Overpriced Stock Service*'s record over the last two years has actually been the worst of all the short-sellers I monitor in my *Hulbert Financial Digest*. Anyone replicating its model portfolio strategy would have lost 42.9% of his or her capital during that period.

Nevertheless, *Overpriced Stock Service*'s recent record notwithstanding, investment letters on average are better on the short side than on the long side of the market. Unlike most brokers, most investment letters tell you what and when to sell as well as what and when to buy. The brokerage firms, in contrast, are often so biased toward the "buy" side of the market (or possibly toward underwriting fees) that the worst many brokers can bring themselves to say about a stock is that it is a "weak hold." What's more, as I pointed out in my last column on this subject (*Oct. 15, 1990*), there is surprising evidence that advisory letters are pretty good at singling out overpriced stocks.

Here are the performance data for the dozen services that regularly offer short-sale candidates: Over the last two years—a period, don't forget, characterized by a strong bull market—the stocks they recommended for shorting have gone up by just 5.7% on average, or less than half the 13.4% by which the Wilshire 5000's total-return index has appreciated. (These calculations ignored short-sale candidates that were trading below $5.)

It is of course true that you make money on a shorted stock only if it goes down. But the important thing, especially for investors with hedged portfolios, is that the average letter's shorts underperformed the market.

Furthermore, several individual services have done much better than the average at identifying which stocks ought to be shorted. The letter whose shorts have the best two-year record is Charles LaLoggia's *Special Situation Report*; his recommended shorts have declined 28.7% since the beginning of 1990. Also performing well have been the *Holt Advisory* (edited by Martin Weiss), whose shorts have declined by 21%; the *Value Line Investment Survey*, whose Group 5 stocks over the past two years have declined by 7.6%; and the *Zweig Performance Ratings Report*, whose shorts have declined by 6.2% over the last two years.

Note that these investment letters all make buy recommendations in addition to offering short-sale candidates. By contrast, Mike Murphy's *Overpriced Stock Service* recommends short sales exclusively, so it is almost impossible for Murphy to turn in a strong performance in a bull market.

To their credit, however, Murphy and Morgenthaler were reportedly the first to announce evidence of fraud in retailer Cascade International, whose stock recently collapsed. Anyone who was long Cascade and took Murphy and Morgenthaler's warnings to heart probably doesn't care about model portfolios. With sell recommendations harder to come by than long ones, an investment letter's negative picks can be worth heeding.

Since no one knows whether the market will go up or down, the best way of utilizing investment letters' short-sale ideas is to create a hedged portfolio, part long and part short. That way an investor has a good chance to make money regardless of which direction the market takes. In a bull market you will lose on the shorts, but you will more than make it back on the longs. If the market declines, your longs will depreciate at a slower rate than your shorts will rise in value. Both cases assume, of course, that you can pick shorts that will underperform the market—something these investment letters seem to be pretty good at delivering.

Which stocks are investment letters currently recommending to short? Seven stocks are recommended for shorting by three or more of the services that I monitor.

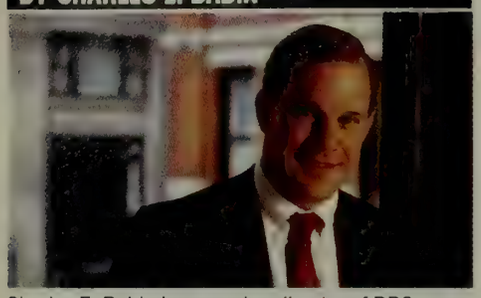
Two of these stocks are major money center banks: Chase Manhattan (recent price, 16) and Citicorp (10). Two more are retailers: May Department Stores (49) and Home Depot (65); the latter operates a string of building supply and home improvement stores on the East Coast. The others are CBS Inc. (129); a life insurance holding company named Conseco (60); and defense contractor Northrop Corp. (21).

But remember: The safest way to take advantage of these short-sale ideas is to use them in a portfolio that is hedged: part long, part short. ■

When interest rates start trending up again, will this signal the end of the bull market? Don't bet on it.

What feeds the bull?

BY CHARLES E. BABIN



Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm in Boston.

FOR THE PAST YEAR or so, a common theme seemed to dominate the financial press: Nearly every uptick in the stock market was attributed to either a drop in interest rates or the anticipation of one.

It would be easy to assume from this Johnny-one-note interpretation that the bull market will be over when interest rates start rising again. This doesn't necessarily follow.

True, rates have fallen precipitously, especially in the short end of the yield curve. The spot yield for a three-month Treasury bill at the end of November, for example, was hovering around 4.35%—down 267 basis points from its year-earlier level (7.02%). This represents a 38% decline in the price of credit and is the lowest T bill yield since 1976. During this period of declining interest rates, stocks have been strong, with the S&P Composite returning 20.4%, including dividends. So it is hardly surprising that investors associate declining interest rates with rising stock prices.

Eventually, as the economic recovery proceeds, interest rates likely will rise. In fact, November's closing Treasury bill futures market quotations suggest that three-month bill yields will bottom out sometime over the next six months and then slowly but surely inch higher.

From the inception of this market in January 1976, Treasury bill futures have provided a fairly reliable signal of impending annual changes in T bill yields. Are they, then, foretelling an end to the bull market?

No. Here's why:

As is evident from the snapshot presented in the accompanying table, interest rates and share prices don't always move in opposite directions, especially at inflection points in the business cycle. Most previous bust-to-boom cycles were characterized by a runup in interest rates—often a big one—as the economy gained strength. Despite this, the stock market has tended to march on, its total return averaging better than 20%, well above its historical mean of 12.9%. Notice that the biggest jump in interest rates coincided with the biggest increase in industrial production as well as the most robust stock market; the second-largest interest rate increase was associated with the second-best economic/stock market performance.

Assuming Commerce Secretary Robert Mosbacher is correct in his recent pronouncement that the recession is over, it's noteworthy that the credit market's behavior prior to the upturn has mirrored the historical pattern. (T bill yields in the year preceding economic troughs dropped 37% on average.) Given that the linkages seem to be holding up during the current business cycle, there's a good likelihood that the recovery period will follow this pattern. This would mean a stock market that continues to rise, even if interest rates turn up.

As I discussed in my Oct. 1, 1990 column, statistical testing confirms that interest rate fluctuations can be used to anticipate broad stock market swings. And, based on this observed relationship, today's interest rate picture suggests that the S&P's total return in the year ahead will exceed that of cash equivalents. A double-digit outcome is probable.

To be sure, higher interest rates will eventually exact a toll from the economy and from the equity markets. But at this point in the business cycle, any upward movement should be interpreted as a symptom of economic recovery rather than as a death blow for the stock market. If history is any guide, the bull market is not finished, nor will it be finished when interest rates start rising again. ■

If the recession is over, as the Commerce Department claims, interest rates could move higher during the year ahead. But if history is a guide, equity markets can survive the threat.

Are higher interest rates bad for stocks?

Economic trough	Change over ensuing 12-month period: Price of credit[1]	Industrial production	S&P Composite[2]
Nov 1982	7.2%	10.9%	25.6%
July 1980	72.5	7.7	12.9
Mar 1975	–10.1	11.1	28.4
Nov 1970	–14.5	6.9	11.2
Feb 1961	5.0	13.3	13.6
Apr 1958	137.5	21.3	37.3
May 1954	93.1	13.9	36.0
Average	41.5%	12.2%	23.6%

[1]Fiscal-year change in three-month T bill yield. [2]Includes dividends.

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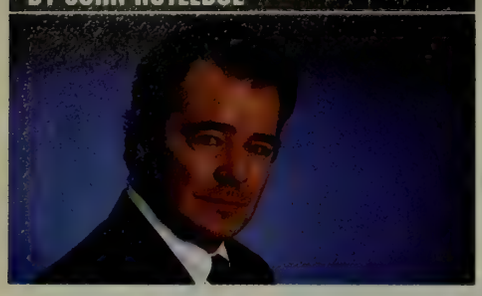
Quarter-point cuts in the discount rate aren't what the economy needs. Until property values stop dropping, the recession will worsen.

The cruelest tax of all

BY JOHN RUTLEDGE



John Rutledge is an economist and chairman of Rutledge & Co., a merchant bank in Claremont, Calif.

WHAT DO YOU GET when you cross President Bush with James Dean? You get a rebel without a clue, because it is clear that the Bush Administration doesn't have a clue about either what's wrong with the economy or how to fix it. While the White House jousts with Congress over tax gimmicks, the economy continues to unravel, with 230,000 jobs lost last month alone.

Meanwhile, the Fed, a reluctant warrior haunted by the memories of past inflation battles, has been left to fight the recession alone. It has done so grudgingly but persistently, driving short-term interest rates to a 20-year low. But the Fed's interest rate medicine isn't working.

For one thing it is the wrong medicine. The core of this recession is not the price of money, it is falling property values. There is no level of interest rates—including zero interest rates—that will make people comfortable with owning our economy's $8.4 trillion stock of land and residential real estate as long as they expect property prices to fall. Stabilizing property values, not growth gimmicks, is the main issue that ought to be addressed by economic policy today. Get that one right and the other problems will solve themselves.

Taxes are certainly part of the problem, of course. Last year's celebrated budget agreement, which was supposed to restore fiscal responsibility to the budget process, raised federal taxes in 1991 by $17.7 billion and loaded more than $51 billion in excise taxes on consumers' backs over a three-year period. This contributed to weak demand by pushing up prices. Because higher prices show up in the CPI, increased excise taxes created the illusion of inflation, making the Fed still more cautious about stimulating the economy.

To top it off, 30 state governments raised taxes in 1991 by $17 billion.

But the biggest, the cruelest and the most damaging tax increase of all didn't even show up on the government books as a tax. Last year the government's bungling of the savings and loan workout robbed American households of $181 billion in net worth, as an already weak realty market was further depressed by Resolution Trust Corp.'s dumping of foreclosed property. For homeowners, this amounted to a tax on their net worth.

Falling property values and declining net worth hit the production economy by affecting both consumers and the banking system. Land and residential real estate account for more than half our country's $16.2 trillion net worth. Many families view the equity in their homes as a sort of savings account.

Net worth normally grows each year—by 8.3% per year since World War II. If this increase had happened again in 1991, U.S. consumers would have had an additional $1.3 trillion of comfort. Instead, their net worth fell by $181 billion, creating a net worth gap of roughly $1.5 trillion. Is it any wonder consumers ceased buying new cars and furniture, deciding instead to repay installment debt in order to repair their damaged net worth?

Falling property values also affect the economy through the banking system—by impairing the capital ratios of banks. Falling property values erode the value of collateral, pushing banks into capital problems and drawing the attention of the dreaded bank examiners. As a result, we have a credit crunch that has deprived small companies of working capital for the past year and a half.

All in all, policymakers should not be surprised that the recession has worsened. As "Smiling" Jack Smith used to say to contestants on his quiz show, "You asked for it."

Smith also knew that 20 musicians in a room don't make music—they make noise. What turns the noise into music is a bandleader. And a bandleader is what the economy desperately needs today to coordinate the activities of the various agencies—the Fed, the Treasury Department, the Comptroller's Office, the RTC, as well as Congress—that are involved in real estate and banking problems.

The bandleader should press for the reversal of the punitive provisions in the 1986 tax act, including a reduction of the capital gains rate and indexing of gains, not to raise stock prices, but to stabilize the returns on real assets. The bandleader would urge the Federal Reserve to adopt (elephant-adjusted) money growth targets that would explicitly offset or sterilize the impact of RTC property auctions on property values. This means recognizing that the zero-inflation target that is important for the country over the long term is not the CPI, which is dominated (55%) by service prices, but the prices of real estate and other fixed assets that compose our net worth.

I know of no example in history of an economy growing while its net worth shrank. But the fellow who is supposed to be leading the band doesn't seem to have a clue about this. ■

One investor's New Year's resolution is another investor's bargain-price stock.

How to have a happy new year

BY LASZLO BIRINYI JR.

Laszlo Birinyi Jr. is president of Birinyi Associates, New York, a financial consulting firm.

UNLIKE ECONOMISTS, who routinely use seasonally adjusted data to smooth aberrations, make results more comparable or explain why predictions went awry, investors rarely think in terms of seasons. With good reason: Market indicators and factors are not generally affected by times or points in the year.

Oh, yes, magazines and professional publications produce long, detailed appraisals of the next 12 months. But cynics note that these are often longer than the regular issue only because two weeklies have been combined into one biweekly so that the editors, too, can focus on the holidays.

But there is one major exception to the rule that the market is calendar-blind: end-of-year tax-loss and portfolio housecleaning. Most investors, including professional money managers, are happy to take profits. But taking a loss and admitting that one was wrong is usually postponed until December, when, it is hoped, one has offsetting profits, which help to mitigate and somewhat offset the pain.

As the final date for taking tax losses approaches, so does the New Year syndrome. People resolve to lose weight and exercise and to clean out the stinkers from their portfolios.

Investors might capitalize on this seasonal propensity by looking at those stocks that have not had a good year, which might indeed be under undue selling pressure because of tax selling or portfolio adjustments, but in which selling is likely to be only temporary and not abundant. These losers often get an extra nudge down from year-end portfolio rearranging. When that seasonal selling pressure abates, these often bounce back.

But don't make the mistake of thinking that every 1991 big loser is a good buy. Some are. Some aren't. Here are some that are:

IBM (88) is the first and foremost candidate. No one, not even the company, is suggesting a return to the halcyon days, but IBM has probably been unduly penalized, especially by Wall Street. The company is not debt-laden, and few corporations, domestic or international, have its resources. As selling, especially tax-loss selling, puts pressure on its stock price, investors with no need for immediate gratification should consider this a buying opportunity *(see* FORBES, *Dec. 23, 1991)*.

United Technologies (48) has not declined to the extent of an IBM, but it has severely underperformed other defense stocks (notably McDonnell Douglas). But our approach of tracking investors' actions shows that selling has not been heavy, and the stock does not warrant its recent low price.

Tenneco (31) was one of many stocks that was heavily penalized for an earnings shortfall in 1990. But there has been evidence of retail buying, and institutions, while not yet positive, have stopped heavy selling.

Texas Instruments (28), like many technology names, performed poorly in a positive market environment, but institutional accumulation exists, and the light retail selling strongly suggests tax and other—it is hoped temporary—strategies at work.

Wall Street expects *Atlantic Richfield* (104) to earn $8 per share next year, easily covering its $5.50 dividend, which yields over 5%. Individual investors have snapped up shares recently, and, at its $100 level, block traders were also positively aggressive.

Champion International (23) is not only down since last December, it is, in Wall Street's eyes. Recently trading at over 20 times this year's anticipated earnings, the presence of even scattered buying is surprising.

Wells Fargo (55) is at the juncture of short-sellers and value-buyers. Considered a market vehicle for California and its real estate sins and excesses, the company recently cut its dividend and prepared for write-downs. Whether investors perceive the golden touch of the legendary Mr. Buffett or other values, the pattern of accumulation is similar to last year's, when the stock went from 43 to 97.

The *New York Times* (21, Amex) is universally considered to be a value stock. Since value stocks are generally a label given to stocks that didn't move but should have, some suspicion is in order. But with disarray among New York's dailies, the *Times* would be a direct beneficiary of any positive economic surprises.

Investors aren't forming orderly queues to buy the stock, but selling is no longer in evidence, either. As with Wells Fargo, investors whose time horizons are posted on the wall should consider the "gray lady." For those who gauge long term by looking at their wrists, these names are unlikely to be of interest.

Obviously, there are an abundance of other large companies that did not prosper in 1991. But not all of them are bargains. *GM, Ford, Citicorp, Caterpillar, Boeing* and most energy-related issues are showing not only seasonal selling but a continuation of selling pressures present long before the holidays. Logic and history suggest that these stocks, too, will hit bottom someday, but not at this time and not at these prices. ■

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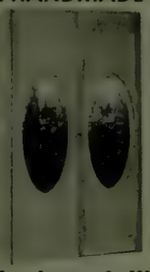

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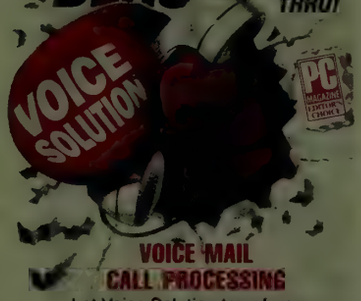

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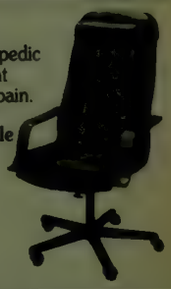

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Bottom fishing in New England

GERARD CASSIDY, a Portland, Me.-based regional-banking analyst for Tucker Anthony, scored big as an early bear on the New England economy. Cassidy scored again when he turned bearish on California in the fall of 1990 (FORBES, *Oct. 29, 1990*).

Now Cassidy is growing cautiously bullish on several banks in New England. Its economy, he thinks, will bottom out sometime in 1992.

Straws in the wind: For the first time in three years Massachusetts, accounting for over half the region's economy, has posted three straight months of employment gains. Look for lots more jobs to be created thanks to a big construction project—another tunnel linking Logan Airport to downtown Boston. New England's help-wanted advertising index also has begun to bottom out.

Rather than target the region's better-known banks like Bank of Boston and Shawmut National, Cassidy has singled out 13 smallish savings banks *(see table)*. All but one sell for less than half of stated book value. Their nonperforming assets average less than 7½% of total loans plus foreclosed properties. "That's still high," Cassidy admits, "but the potential clearly is there to move some of those assets off the nonperforming list when New England finally starts to recover."

Although 7 of the 13 have suspended dividends, the other 6 are still paying theirs. They are Cheshire Financial (recent yield of 8.3%), Eastern Bancorp (1.8%), Grove Bank (3.2%), Lexington Savings Bancshares (7.2%), Sterling Bancshares (5.1%) and West Newton Savings Bank (2.9%).

Herd on The Street

BOY, DID THE analyst herd blow it on Wells Fargo & Co. As of December 1990, the analysts' mean estimate of Wells' 1991 earnings was around $12.50 a share. By last spring it was abundantly clear the bank would be hurt by its heavy exposure to the weak California real estate market (FORBES, *Apr. 15, 1991*). Yet in June many analysts were still predicting upwards of $11 a share for Wells in 1991.

By early December a torrent of bad news had come out, and Wells' charge-offs and loan-loss reserves were rising. Even so, the herd still thought the bank would earn $5.50 a share or so for the year.

Then came Dec. 12's shocker: $700 million more of reserves; fourth-quarter losses of up to $238 million, or $4.60 a share; a 50% dividend cut. Today the herd figures Wells will earn under 40 cents a share.

The stock, meanwhile, has retraced all its gains in 1991. The stock opened a year ago at 57⅞, rose to nearly 100, fell below 50 and recently was back at 55—just under what Warren Buffett's Berkshire Hathaway paid for its 5 million shares (10% of the outstanding common) in late 1990.

What's the outlook for the coming year? Some analysts have lowered their 1992 earnings-per-share forecasts to $5 or $6. But given how wrong most were on Wells Fargo in 1991, their 1992 predictions inspire little confidence. Quite conceivably, more writeoffs and loan-loss reserve charges lie ahead. If there's another shocker in the next few quarters, the stock could well test 41, its 1990 low.

Tough act to follow

BULLY FOR THE brokerage house stocks. The group outperformed the market by a country mile in 1991. Since the beginning of the year Charles Schwab has nearly tripled, Merrill Lynch has risen around 150%, Morgan Stanley and PaineWebber have doubled, and Bear, Stearns is up more than 60%. Even scandal-stained Salomon is still ahead 14%.

What's behind the brokerage run-up? Sharp increases over 1990 in retail flows, underwriting and trading profits. But over the last month or so the stocks have weakened. Merrill (recent price of 52), Morgan (54), Paine (20) and Bear (15) are down anywhere from 8% to 13%. Schwab (25) is off slightly; ditto Solly (28).

Time to buy the six on weakness? We put the question to analyst Guy Moszkowski of Sanford C. Bernstein & Co. With the exception of Salomon, which trades at the low end of its historic price-to-book range, his answer is no.

Moszkowski thinks it will be difficult for the brokerage houses to maintain their earnings momentum in 1992 because so much of this has been driven by market trends—most significantly the downward movement in interest rates in 1991 and the steepening of the yield curve. "It's inherently unsustainable," he says of last year's earnings gains.

Moszkowski expects 1991's fourth-quarter earnings to be excellent, and says the stocks could pop

Lucky 13?

Company/state	Book value per share*	Price recent	Price 12-month high	Price 12-month low	Exchange	Shares (millions)
BankWorcester/Mass	$17.49	[illegible]	9⅝	4⅜	Nasdaq	6.6
Cheshire Financial/NH	19.64	7¼	10⅝	6¼	Amex	3.4
Cohasset Savings Bank/Mass	11.47	3¼	4¾	3	Nasdaq	1.0
Dime Financial/Conn	13.59	2¼	7½	2	Nasdaq	5.0
Eastern Bancorp/Vt	22.32	5	8¾	4½	Nasdaq	2.3
Family Bancorp/Mass	15.00	5¼	5¾	1¾	Nasdaq	2.6
Grove Bank/Mass	16.36	7⅝	[illegible]	5	Nasdaq	1.5
Lexington Savings Bank/Mass	13.79	5½	7¼	4	Nasdaq	2.3
New World Bancorp/Mass	19.59	6½	7¼	2⅝	Nasdaq	4.0
Society for Savings Bancorp/Conn	17.46	4⅞	9½	3⅞	Nasdaq	11.9
Southington Savings Bank/Conn	16.21	4	5¾	3¾	Nasdaq	4.5
Sterling Bancshares/Mass	17.17	9½	10¼	3¼	Nasdaq	2.9
West Newton Savings Bank/Mass	12.38	5⅞	6⅜	2	Nasdaq	1.7

*As of 9/30/91.
Source: Tucker Anthony

around the time those results are announced in early 1992. But don't jump in on the news, he advises. After that, the stocks are eminently vulnerable to disappointed expectations.

Tax PERCS

SUPPOSE you're sitting on capital losses in the common stocks of General Motors, Kmart and Texas Instruments, all depressed of late. Having stumbled across some capital gains you took earlier in the year, you'd like to take those losses to offset the gains. But you still like the stocks, and the IRS' wash sale rules say that in order to take the loss, you've got to wait until after 30 days before rebuying a stock. A lot can happen in 30 days.

Not to worry, says Lehman Brothers' tax expert Robert Willens. There's a way to generate the losses without getting totally out of the stock. Willens reminds Streetwalker that GM and the other companies listed above (plus RJR Nabisco) have issued preferred equity redemption cumulative stock (PERCS). PERCS are hybrid preferred/common instruments that are convertible into common stock on a share-for-share basis three years after their issue date. PERCS pay a slightly higher dividend than the common, but also are callable in that three-year period, usually for about 50% above their issue price.

Willens' advice to those in need of year-end losses: Sell the common stock and replace it with the PERCS; he believes the IRS will deem them to be sufficiently different from the common to avoid wash sale problems.

Say you bought Texas Instruments common stock at 40 last spring. Recent price: 27⅜. Recent price of the PERCS: 28. If you sell the TI common and buy the PERCS, you will have nearly a $13-a-share loss on the common with which to absorb capital gains or to use, in an amount up to $3,000, against other income. Meanwhile, through the PERCS, you're still likely to participate if the underlying common stock appreciates.

Alternately, you could simply sell the common, take the loss, and buy the stock back after 30 days. You might have to pay more for the stock a month hence. Then again, it might be cheaper. —LAURA SAUNDERS

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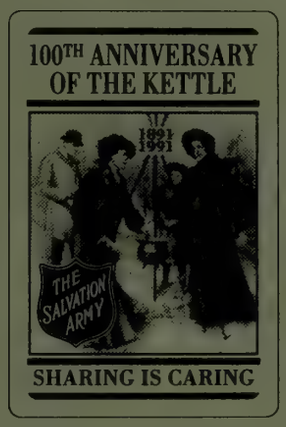

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"The more things change . . ."

70 years ago in FORBES

(FROM THE ISSUE OF JAN. 7, 1922)

"**The old-style merger** gobbled up companies competing in the same industry: The Steel Corp. originally gathered in other steel companies, and the Standard Oil Co. was formed by corralling other oil companies. That was called horizontal merging. The new-style combination is perpendicular; it moves in a straight line from the raw material to the consumer. The latest . . . example of the new-style combination is Anaconda's absorption of the American Brass Co."

"**A plan** is under consideration for the housing of all federal department and bureau offices in New York City in one modern office building designed to meet future demands. . . ."

60 years ago

(FROM THE ISSUE OF JAN. 1, 1932)

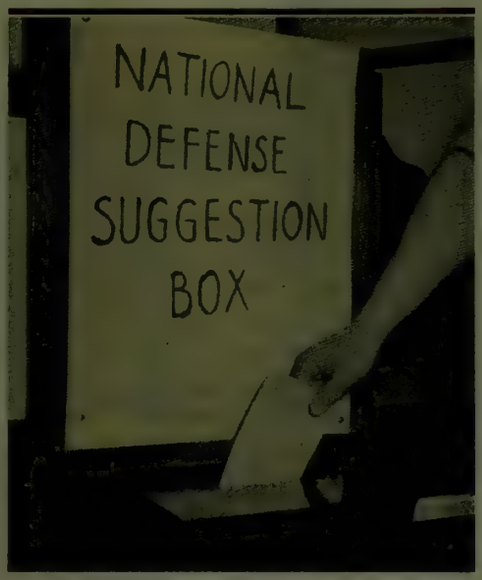
Chevy coupe for 1932. Prices on the line started at $475 f. o. b. Flint.

"**Automobile leaders** are refusing to admit spinelessly that nothing can be done to overcome stagnation. They have worked overtime their own brains and the brains of their associates to create merchandise of better quality, merchandise more attractive in appearance, merchandise offering greater per-dollar value than ever before [and] they are putting forward unparalleled sales promotion efforts. . . ."

"**Tax increase** proposals recommended by the Treasury Department were not wholly unexpected. . . . The suggestions embody large increases in income and corporation taxes, going into the smaller income brackets for the first time in history but placing the greater share of new income taxes on the higher income brackets."

50 years ago

(FROM THE ISSUE OF JAN. 1, 1942)



Every war production plant had one.

"**The war will end** in 1943, according to the combined judgment of 56 of America's foremost business leaders polled by this publication. No fewer than 20% believe hostilities will cease this year. But 21% name 1944. Averaging these dates, and adding the 36% who specify 1943, the result means that three-fourths of those furnishing their opinions predict that 1943 will bring victory to the democracies."

"**Timed** to the moment is the introduction of a new General Mills premium: A luminous belt that not only holds up pants but lights up in the dark as well. 'Just the thing for blackouts,' the company says."

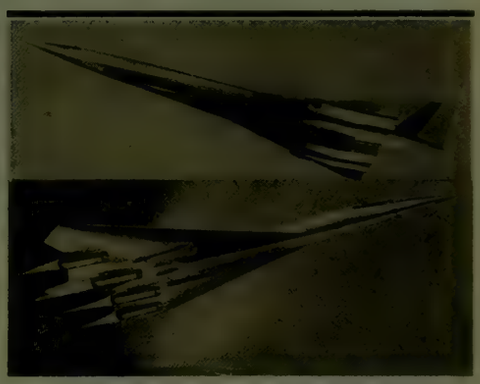
"**Today's** ordinary soldier thinks of air transport as naturally as his Doughboy father did of motor transport in 1917. When Reuben came back from France, one of the popular songs of the day was 'How You Goin' to Keep 'Em Down on the Farm.' Pa usually solved this poser by buying a tractor and a Model T. This time it's going to be 'How You Goin' to Keep 'Em Down on the Ground.' "

25 years ago

(FROM THE ISSUE OF JAN. 1, 1967)

"**In the information** processing business, even more than in most industries, being number one makes the big difference. Look at the returns racked up by the companies that dominate their fields. Xerox comes first, with a return on book value of 34.1%, followed by IBM (with 24.2%), Moore Corp. (17.7%) and Addressograph-Multigraph (14.9%). Each of these companies dominates its market."

"**It was a rare** defense company that was not booming along at top speed, what with the demands of Vietnam and the probable defense budget for the next fiscal year about $70-odd billion. Twelve of the 16 defense companies on FORBES' list increased their earnings per share, often by substantial percentages, and 11 of the 16 lifted their profit margins in the most recently reported 12 months, as compared with 1964-65. . . ."



Supersonic designs by Lockheed (above) and Boeing that never flew.

10 years ago

(FROM THE ISSUE OF JAN. 4, 1982)

"**At Monsanto** they're measuring parts-per-trillion impurities in silicon crystals. At Du Pont they're studying brain chemistry. Dow scientists are concocting new plastics from old, overlooked raw materials like ethyloxazoline. What's going on? Very simply, after a generation of skimping on research and development, chemicals are becoming an industry of search and discovery once more."

"**Big airlines** are limping into 1982 after one of the worst years in their history: Half of the major 12 carriers lost substantial amounts, with Pan Am alone losing more than $225 million through the third quarter. Overall, only American, Delta, Northwest and USAir showed much profit at all, and as a whole the industry lost millions."

Make the Congressional Record *a genuine record. Adopt a resolution . . . that specified the elimination of the abortion, the Appendix, that bulks large with constituent twaddle that never entered into [congressional] deliberations in the first place. Secondly, and of equal importance, state that the* Record *shall be a faithful translation of what was said, and shall be tampered with by no one between the time [it] was said and its appearance in print.*

–MALCOLM FORBES

A Text ...

There is neither Jew nor Greek, there is neither bond nor free, there is neither male nor female: for ye are all one in Christ Jesus. And if ye be Christ's, then are ye Abraham's seed, and heirs according to the promise.
–GALATIANS 3:28-29

Sent in by E.B. Lowdon, Cape Kiwanda, Ore. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

If England was what
England seems,
An' not the England
of our dreams,
But only putty,
brass and paint,
'Ow quick we'd chuck her!
But she ain't!
–RUDYARD KIPLING

The English are proud;
the French are vain.
–JEAN-JACQUES ROUSSEAU

The difference between the vanity of a Frenchman and an Englishman is this: The one thinks everything right that is French, while the other thinks everything wrong that is not English.
–WILLIAM HAZLITT

England has 42 religions and only two sauces.
–VOLTAIRE

What a pity it is that we have no amusements in England but vice and religion.
–SYDNEY SMITH

Englishman: A man who has never been able to tell a lie about others and who is never willing to face the truth about himself.
–MICHAEL ARLEN

If one could only teach the English how to talk and the Irish how to listen, society would be quite civilized.
–OSCAR WILDE

How hard it is to make an Englishman acknowledge that he is happy.
–WILLIAM MAKEPEACE THACKERAY

The English winter—ending in July, to recommence in August.
–LORD BYRON

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No one can be as calculatedly rude as the British, which amazes Americans, who do not understand studied insult and can only offer abuse as a substitute.
–PAUL GALLICO

In dealing with Englishmen you can be sure of one thing only, that the logical solution will not be adopted.
–WILLIAM INGE

A blaspheming Frenchman is a spectacle more pleasing to the Lord than a praying Englishman.
–HEINRICH HEINE

Oats: a grain, which in England is generally given to horses, but in Scotland supports the people.
–SAMUEL JOHNSON

We know no spectacle so ridiculous as the British public in one of its periodic fits of morality.
–THOMAS B. MACAULAY

By nationalism I mean a general recognition of the right of all nations to be national. I find it more confusing to call this patriotism, because patriotism, when it was rammed down my throat in the old jingo days, always meant that the British empire had a right to do everything and nobody else had a right to do anything.
–G.K. CHESTERTON

There is nothing so bad or so good that you will not find Englishmen doing it; but you will never find an Englishman in the wrong. He does everything on principle.
–GEORGE BERNARD SHAW

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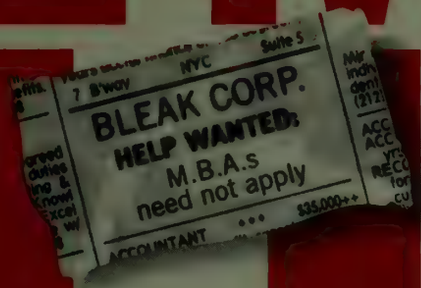

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January 20, 1992
Volume 149
Number 2
FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048.

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A benevolent skeptic

WE WERE SADDENED to learn that Warren T. Brookes died late last month at his home near Washington, D.C. A well-known syndicated newspaper columnist, Warren was also a highly valued contributor to FORBES. He was educated in economics but wrote intelligently and convincingly on a range of public policy issues. He was influential because he dealt with controversial topics in terms of facts, not rhetoric. In "The global warming panic," Dec. 25, 1989, he wrote in FORBES that the evidence about a global warming trend was shaky. In "The wasteful pursuit of zero risk," Apr. 30, 1990, he demonstrated that the public was overreacting to trace chemicals thought to pose a cancer threat. In "The strange case of the glancing geese," Sept. 2, 1991, he showed how federal wetlands regulations were turning into federal confiscation of private land. The global warming data he challenged look even murkier now. Scientists have publicly admitted that the 1982 evacuation of Times Beach, Mo. following a dioxin spill was an overreaction. The Supreme Court is to hear arguments this year on environmental confiscations.

Warren Brookes possessed a deep curiosity that often drove him to question the generally accepted wisdom; call it benevolent skepticism. His writing was very much at home in FORBES.

Devaluation

Dana Wechsler Linden

DANA WECHSLER LINDEN recalls that when she received her M.B.A. from Harvard in 1980, "My classmates and I were wined and dined for months by recruiters. We spent our free time comparing salaries, perks and bonuses for signing up on the spot. We were sellers in a seller's market." Linden herself had several firm offers. So it came as a shock to her when she began researching an article on the current state of the business schools to learn how much things had changed. "In talking to M.B.A. candidates—including those from Harvard—I discovered how nervous they were about even finding a job, let alone haggling about perks." Her article about the devaluation of the once coveted degree, co-written with Jody Brennan and Randall Lane, begins on page 76.

A taxing decade

BILL BALDWIN knows it's dangerous to make predictions, especially if there's a chance people will remember them. But there's one prediction he feels safe in making: Forget what the politicians are saying about a tax cut for the middle class; taxes for middle-class people are headed upward. There are a few things you can do to soften the bite. Baldwin describes them in "A paranoid's guide to tax increases," which begins on page 44.

James W. Michaels
Editor

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Bubbling

Lou Lowenkron, a 35-year veteran of the soda biz, organized a leveraged buyout of A&W Brands, maker of the nation's leading root beer and cream sodas, in 1986 and then took it public at $11 a share a few months later (FORBES, *Dec. 11, 1989*). Since then the stock has more than tripled, and there seems to be plenty of fizz left in the company.

In the last five years, Lowenkron has flattened A&W's debt from 95% of capitalization to just 10%. And he may have beaten back the assault on A&W by Barq's, the New Orleans-based maker of root beer and cream sodas (FORBES, *June 24, 1991*). Barq's New York-area bottler, Joyce Beverage Co., recently filed for bankruptcy protection, leaving Barq's in a bottling squeeze in the region. By contrast, A&W, which is distributed in the New York area by Coca-Cola Bottling Co. of New York, is now looking stronger than ever.

An early A&W root beer stand
Is there some pop left in the stock?

Oppenheimer & Co. analyst David Goldman reckons A&W earned $14 million ($1.55 a share) on revenues of $123 million in 1991. At a recent 37⅛, the stock is fetching nearly 24 times earnings, a slight premium to the S&P 500. But Goldman thinks that A&W's line, which also includes Squirt grapefruit-flavored soda and Country Time Lemonade, will keep outgrowing the soda industry overall. And he expects A&W's 85% gross margin to go even higher when the sweetener aspartame, which accounts for half of A&W's cost of goods sold, comes off patent at the end of this year.

Torray! Torray!

IN 1986, as oil prices plunged and the stock market soared, money manager Robert Torray steadfastly kept 30% of his money in energy-related stocks and 40% in cash. Many of his pension fund clients grew tired of Torray's contrarianism and pulled their funds out of his Robert E. Torray & Co. (FORBES, *May 19, 1986*).

Too bad for the clients who deserted him. In 1987 energy stocks rebounded and the stock market crashed, and Torray began shining again. For the five years ended last Sept. 30, Bethesda, Md.-based Robert E. Torray & Co. earned 15.2% a year for its clients, versus 14.7% for the S&P 500, according to CDA Investment Technologies, Inc.

While gloom-and-doom is the current mood, Torray has invested almost all of the $1.5 billion he manages in stocks—and mostly unpopular stocks at that. He particularly likes banks and has big positions in Citicorp, Bank of Boston, Shawmut and First Chicago. "The banking system has basically stabilized," says Torray. "There are no large volumes of questionable loans being put on the books."

Torray also likes the beleaguered newspaper outfits: Dow Jones & Co., New York Times, *Boston Globe* publisher Affiliated Publications and

Tomas Zabala

Money manager Robert Torray
Newspaper and bank stocks look good.

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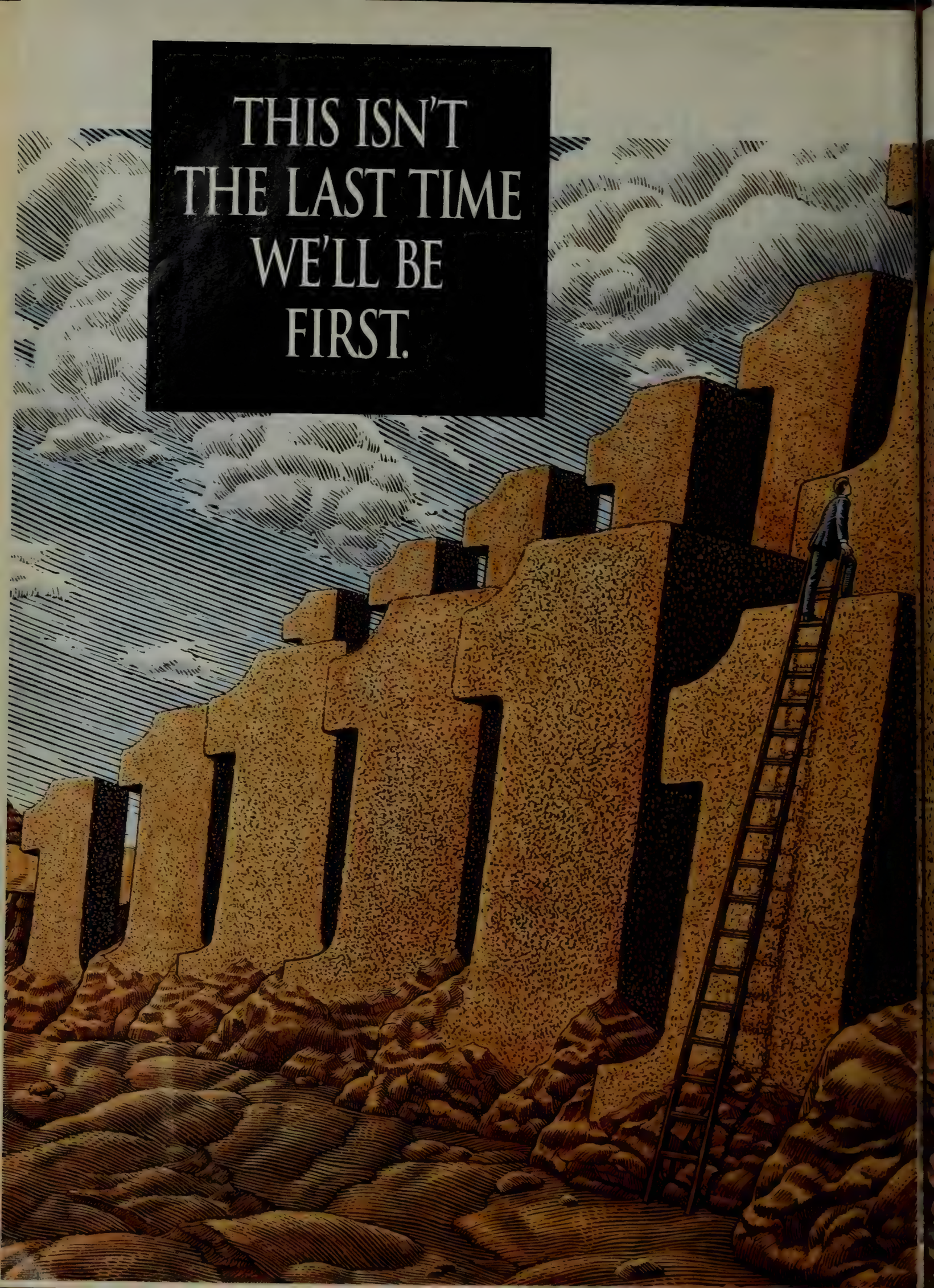
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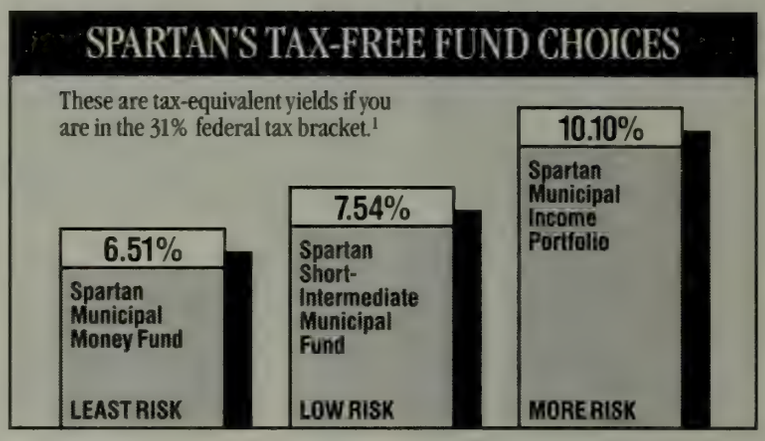

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[1]Annualized historical yields (as of 12/16/91) and average annual returns (for the periods ending 9/30/91) are: Money Fund, **4.49%** (7-day). Short-Intermediate Fund, **5.20%** (30-day) **8.51%** (1-year) and **4.86%** (life of fund). Income Portfolio, **6.97%** (30-day), **13.45%** (1-year), and **10.98%** (life of fund). Yields vary. Performance figures are historical and total return includes change in share prices, which vary (except on Money Fund), reinvestment of dividends and capital gains and the effect of the $5 closeout fee on an average size account. In the bond funds, you may have a gain or loss when you sell your shares. If the advisor had not paid a portion of expenses the yields and tax-equivalent yields would have been approximately **4.19%** and **6.07%** (Money Fund) and **6.77%** and **9.81%** (Income Portfolio), respectively, and total return would have been lower. Expense limitations may be terminated or revised at any time, at which time yield will go down. A portion of income may be subject to the federal alternative minimum tax. [2]Transactions will reduce your yield. [3]An investment in the Money Fund is not insured or guaranteed by the U.S. Government and no assurance can be made that the $1 share price will be maintained. Fidelity Distributors Corporation, 82 Devonshire Street, Boston, MA 02109

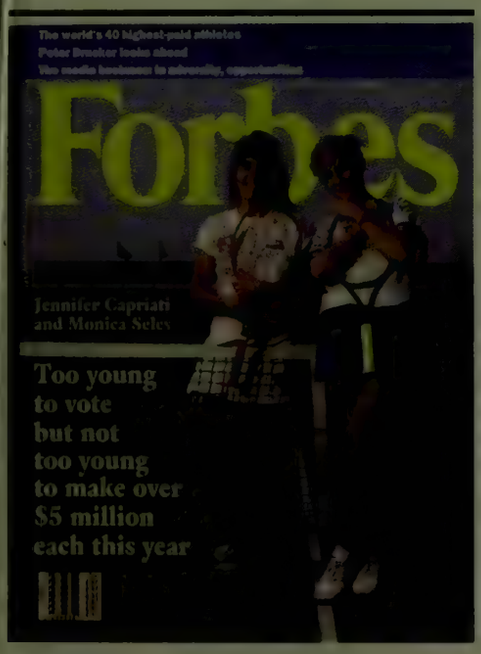
2r

annett Co., of *USA Today*. All have een hammered by reductions in uto, retail store and real estate adver- sing. Torray isn't quite sure whether l the ad lineage will ever return, but e is confident that many ads will ome back once the economy turns round. This, combined with reduced perating costs, should make the ewspapers solidly profitable once gain.

Advantage, women

LAST YEAR number-one-ranked wom- en's tennis star Monica Seles, now 18, won $2.4 million—$800,000 more than FORBES predicted *(Aug. 19, 1991)*. And that doesn't count the $6 million in product endorsements and other earnings.

This year things are looking even better for Seles' bank account. Gerard Smith, head of the Women's Tennis Association, wants to bundle eight or nine women's tournaments, plus the



championships, and market the pack- age worldwide. "The men's tour has just done that and got $42 million for their television rights out of Germany alone," says Smith.

More aggressive marketing would suit professional women tennis play- ers. The top 150 women players won an average of $154,000 last year. On average, the top 150 male players won $289,000. If Smith gets his way, the earnings gap should narrow.

–PETER NEWCOMB

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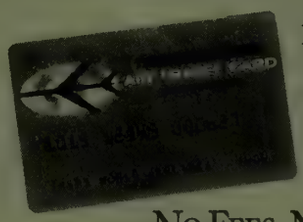

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Ocean Grief Club

THE Ocean Reef Club, in Key Largo, Fla., has a lot of grief. Its owner is Cincinnati's Carl Lindner, head of Chiquita Brands International, Inc. and Great American Communications Corp. Lindner has bought out his minority partners in the 4,000-acre upmarket resort development (houses start at around $800,000) and put his youngest son, 31-year-old Keith Lindner, in charge. There's little land left to sell in the 23-year-old development, so Keith began raising prices. He increased new property owners' initiation fees to join the voluntary club from $4,000 to as much as $20,000 and almost doubled annual dues, to $3,450, from $1,800.

More than 200 property owners have filed a lawsuit in state court against the club, charging it violated Florida's antitrust laws. "They have made damn near 100% enemies of the people down here," grouses William Kelly, president of the Ocean Reef Club property owners association. No comment from the Lindners.

–SETH LUBOVE

Do-it-yourself sale

HEATHKITS—those mail order electronics kits for everything from ham radios to personal computers that were popular with hobbyists during the 1950s and 1960s—are about to disappear. The Heath Co. of Benton Harbor, Mich. has stopped producing the do-it-yourself consumer electronics kits and figures current inventory will be sold out by March.

Heath Co. has a new focus, something it calls "home automation." For example, Heath now markets the Radar Watchdog (at $99.95); this is a burglar alarm system that uses microwave radar to detect motion through doors and walls. It emits a "loud, angry barking" sound when engaged.

But whether Heath's new product line will save the company remains to be seen. Groupe Bull, the French computer company that picked up Heath as part of its 1989 acquisition of Zenith Data Systems, has been trying to flog Heath for almost a year. So far, no takers.

–CHRISTOPHER PALMERI

Illustrations by John Segal

What's Steinbrenner up to?

LAST YEAR was not a good one for George M. Steinbrenner III. Major league baseball commissioner Fay Vincent found him unfit to run the New York Yankees. And the market price of his American Ship Building Co. plunged. Recently trading on the New York Stock Exchange at 1¾ a share, the stock has fallen by almost half since mid-1990. Steinbrenner controls 37% of the company's 10 million fully diluted shares.

Last winter Steinbrenner promised to put up personal collateral to secure $38 million worth of loans to American Ship Building. Was he throwing good money after bad? Perhaps not. In exchange for the commitment, Steinbrenner received the right to convert any loans made against his guarantees into equity at below-market prices. At current prices the deal could increase his stake to as high as 83%, putting Steinbrenner in a position to take the $70 million (estimated 1991 revenues) company private at fire-sale prices.

The company is currently valued by Wall Street at less than $12 million. How much it's really worth is hard to say. It has had negative cash flow and has been losing money since 1987. But American Ship Building does own valuable real estate and manufacturing facilities in Tampa, Fla. In just two years its backlog has swelled 100-fold to $110 million. And it is likely to get another $300 million in U.S. Navy orders. In June, Steinbrenner gave up the titles of chairman and chief executive officer to retired admiral Paul D. Butcher.

As for Steinbrenner, he is clearly a take-charge guy. He is reportedly holding secret talks with Vincent to be reinstated at the Yanks' helm. Is he thinking of taking American Ship Building private? Says George: "That's always an opportunity."

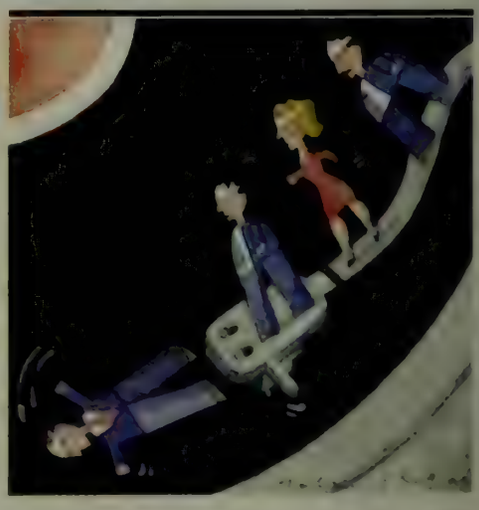
–JAMES R. NORMAN

George Steinbrenner
Going back to shipbuilding?

Yo, dude, you're fired

BAD NEWS in the record business. Music sales in last year's first six months were flat, at $3.5 billion, according to the Recording Industry Association of America, and the second half wasn't much better, despite new recordings out from stars like Michael Jackson, Prince and Hammer. Blame the recession, the high costs of several labels last year, plus the huge fees to sign up talent.

Now firings have begun in earnest. Polygram has sacked some 10 executives. MCA Music, which was recently acquired by Japan's Matsushita, laid off about 25 workers; officials say



here will be no raises for the survivors n 1992. No lifetime employment, ither, at Britain's Thorn EMI Plc., which paid hundreds of millions for Chrysalis Records and SBK Records nd is expected to fire 150, or 30% of ts staff. Industry insiders say it's only a matter of time before pink slips hit the desks at Time Warner's Warner Bros. Records, Sony's Sony Music and Germany's Bertelsmann Music Group. —PETER NEWCOMB

Too ambitious by half

ONE COLD CALL too many got penny stock broker Stephen West into hot water. West works in the Woodbridge, N.J. office of Hibbard Brown & Co., the brokerage firm with ties to penny stock meister Robert Brennan (FORBES, *Dec. 24, 1990*). In November West repeatedly called Indiana resident Robert Lott. West's hot pitch concerned a newly listed Nasdaq stock, Site-Based Media, a company that installs televisions in supermarket aisles and plays videos advertising products on sale in the aisle.

What cold-caller West didn't know was that Lott is an investigator with the Indiana Secretary of State's Securities Division. If he had known, he probably wouldn't have bragged of his 11 years' experience as a securities broker—West is just 27 and has had his broker's license only 18 months.

And he might have picked a healthier stock to push. Site-Based Media's chairman, Robert Landau, resigned in November after New Jersey securities regulators halted trading in the stock. They were concerned about Landau's 1989 guilty plea to wire fraud for misrepresenting the financial state of his former company.

Site-Based Media isn't doing very well, either. Since 1989 it has lost $6 million on sales of $542,000; its auditors have questioned whether it can generate enough sales to stay in business.

After doing some quick research on Site-Based Media, investigator Lott followed through: Broker West and the firm of Hibbard Brown have been charged by the state of Indiana with abusive sales tactics and have been hit with a cease and desist order. Neither West nor Hibbard Brown would comment. —EDWARD GILTENAN

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The lure of money

SIR: Re "The power of positive inspiration" *(Dec. 9, 1991)*. Although very few people grow very rich, there are many who earn an additional $200, $500 or $1,000 each month without having a boss to assess their performance. Amway succeeds because most people just want a chance to make more money. At a time when most companies are laying off workers, Amway offers people a chance to maintain or increase their standard of living.

John Hillery

–MICHAEL JONES
Arlington, Va.

Different foundations

SIR: Re "Can Madison conquer Prague?" *(Dec. 23, 1991)*. The federation was conceived and created after *freedom* was won from the English colonial rule. It was a federation, not of individual national (ethnic) federal republics, but of States that actually are the economic and administrative federal units. The problem of Czechoslovakia is the same as the problems of the Soviet Union, Yugoslavia, etc. Various nations were historically compelled to live together in one State, in which a nation does not feel free from the others.
–SLAVKO KNEZEVIC
Cincinnati, Ohio

Like father, like son?

SIR: I have not sold any shares *(Streetwalker, Oct. 28, 1991)*. Earlier this year, my son, Lloyd Eric Cotsen, sold some stock. Your writer has the same trouble my bank has in distinguishing my son's name from mine. The only two distinctions are that his middle name is Eric, and mine is Edward, and my account is full and his is usually overdrawn. "Insiders Edge" did mistake my son for me. That's why we all call him "Eric." I wish the SEC would also.
–LLOYD E. COTSEN
Chairman/Chief Executive Officer
Neutrogena Corp.
Los Angeles, Calif.

Counting the trees

SIR: Re "Spare that tree!" *(Dec. 9, 1991)*. The Forest Service timber sale accounting system was developed over the last eight years with direct oversight from Congress, the Office of Management & Budget and the Government Accounting Office. In all instances either the Service's system was given a clean bill of health or the Forest Service made changes recommended by the reviewers.
–FRANK GLADICS
Vice President
Public Timber Council
National Forest Products Association
Washington, D.C.

Sorry, no help

SIR: Your article "Messy accounting" *(Oct. 14, 1991)* highlights an issue that is increasingly common but distressingly difficult in corporate disclosure. If discussions with our clients are any guide, the real issue is the incredible lack of predictability regarding potential damage, liability and insurance coverage. While your author suggests that "investors are entitled to some help in judging the risks," the simple fact is that managers are all too frequently unable to provide help.
–MICHAEL ROSENBAUM
Deputy Managing Partner
The Financial Relations Board, Inc.
Chicago, Ill.

What's going on?

SIR: Re Forbes Informer *(Nov. 25, 1991)*. We read that "half a dozen present and former executives of Hill and Knowlton" held a "secret" meeting in London in early October with the object of "hatching" a buyout of our firm. No one on either the Board or the Executive Committee—who would be the logical participants in such a gathering—had such a meeting. To our knowledge no one in the firm participated in such a meeting.
–ROBERT KEITH GRAY
Chairman of the Board
DAVID WYNNE-MORGAN
Chairman, Executive Committee
Hill and Knowlton
Washington, D.C.

Sex education

SIR: Re "The big lie" *(Dec. 23, 1991)*. Sowell actually goes so far as to suggest that sex education causes teenage pregnancies. This is wrong. There is a great deal of data about the relative influence of sex education and other variables on teenage pregnancy, and the overwhelming conclusion is that no conclusion can be reached.
–PHILIP D. HARVEY
Carrboro, N.C.

Not worth it

SIR: Re "The King Lear strategy" *(Dec. 9, 1991)*. Medicaid has a dismal reputation for access, quality, reimbursement, discrimination and institutional bias. As Medicaid budgets skyrocket and government deficits strangle public assistance, even existing levels of access and quality will not be sustained much longer.
–STEPHEN A. MOSES
Kirkland, Wash.

Birds of a feather

SIR: Re "Socialism by another name" *(Dec. 9, 1991)*. That form of socialism wherein government controls production while leaving the means of production in private hands is called fascism; it is not neosocialism.
–ERNEST R. LEWIS
Olympia, Wash.

Business strategy

Sir: Re "The gospel according to Sun Tzu" *(Dec. 9, 1991)*. Friction in war or business cannot be eliminated. The proper goal is to employ a philosophy and procedures that allow a company to work effectively within the inevitable friction.
–JOHN DAVID KUNTZ
Director
War Games for Business
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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

TO-THE-POINT POLITICAL PUNDITRY

AN OBSERVATION our Moscow ambassador, Robert Strauss, made 20 years ago when Democratic Party chairman applies equally well to this presidential race: "If we didn't have to run someone against Nixon, we'd win in a landslide."

LOWERING INTEREST RATES WILL HELP REAL ESTATE

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THE U.S. is ripe for a major reform movement.

Not since the 1890s or the 1930s has there been so much ferment for change. F.D.R.'s New Deal arose from economic catastrophe. But Teddy Roosevelt's Progressive Era grew out of soil that bears resemblance to that of today.

In the 1890s the public knew of the need for innovation in how we were governed, how we were taxed, how the economy was regulated. Yet until Roosevelt took office, no national politico effectively tapped this wellspring. Democrats were wedded to an economic nostrum that silver money would cure all our woes. Republicans were content to be against this foolishness.

Roosevelt changed the political scene drastically, making the Republicans the party of economic growth and democratic change.

UPI/Bettmann

Cynthia Johnson/Gamma-Liaison

GB a TR? Both were war heroes. Teddy rode horses; Bush likes more horsepower.

As in the 1890s, today's politicos are missing a rare opportunity to reshape the political landscape. Democrats are mired in discredited policies of more spending and more taxation; of being hostile to the values of most American voters; and of being wedded to social policies that unwittingly exacerbate poverty and deepen racial tensions. Most Republicans today know better what they are against than what they are for.

It takes no genius to outline a new Progressive Era:

- Taxes. Cut them to stimulate economic growth. John Kennedy did it. So did Ronald Reagan. Why doesn't Bush?
- Education. Parents want radical change—to send their kids to schools of their own choosing.
- The legal system. Dan Quayle was right. It's a mess, and the public knows it. Fundamental reform is possible.
- Inner cities. Housing Secretary Jack Kemp has innovative ideas, but few in D.C. are interested.
- Health. Opening it up to free-market forces would do wonders to curb costs, to expand coverage and to promote even more innovation.
- Regulation. It is rapidly growing again, particularly with the environment and with the F.D.A., thereby hurting both our health and the economy's ability to grow.
- Term limitations for state and national legislators can be this age's equivalent of the turn-of-the-century movement for direct election of U.S. senators (previously, they were chosen by state legislatures).
- Privatization. Both the Feds and the states could push innovative ways of providing social services and rebuilding our infrastructure, including privately held highways. (We may yet get to buy the Brooklyn Bridge.)
- Sound money and low interest rates. We once had both. Why not again?

If President Bush fails to fully exploit these opportunities, Democrats can move into the vacuum.

An exciting new era is upon us.

GERMANY WAS RIGHT

to force Western Europe to recognize Slovenia and Croatia as independent countries from the rubble of Yugoslavia. Britain, France and others reluctantly followed, but the U.S. has yet to do so for fear it might egg the Serbians on in their war against Croatia.

This reluctance is misplaced, misguided. The only

way to stop fighting in that region is to persuade the thugs running Serbia that their aggression will go unrewarded. They have violated 14 cease-fires and will violate any others cobbled together as long as they maintain military superiority.

Recognition of Slovenia and Croatia brings one form of pressure on Serbia. Another would be to give defensive arms to these two new countries. The faster we recognize and deal with new realities, the quicker peace will be restored.

BUT BONN SHOULD HAVE ITS KNUCKLES RAPPED

for letting the Bundesbank, its Federal Reserve equivalent, raise interest rates to their highest level since the deutsche mark was born in 1948.

Teutonic tight money is deflating neighboring economies. The Federal Republic itself has escaped the consequences of this folly only because Bonn is pump-priming tens of billions of marks into eastern Germany. Bonn has already raised taxes to dangerous levels. When the spending splurge begins easing, the German economy will descend into recession.

Coming at a time when critical European Community trade decisions are being made, the slump will fuel protectionist sentiments.

All the more reason, then, for the U.S. to pass a growth-oriented tax cut. No one else is in condition to lead a recovery this year.

WHY DOWN UNDER IS SO DOWN

AUSTRALIA is in its worst economic slump since the Great Depression. The ruling Labor Party has just ousted its longtime leader in hopes that a new face can salvage the situation. Is it just a coincidence that the Western world's sickest economy has the noncommunist world's highest capital gains tax?

ANENT THOSE DISAPPOINTING CHRISTMAS SEASON SALES

STANLEY MARCUS, whose retailing genius gave him fame and made Neiman Marcus a national name, recently visited New York department stores and found indifferent salespeople who made no effort to persuade him to buy. Disinterest in serving and selling is not new or recession-made. I recently bought a 30-year-old letter that then-Senator and later GOP presidential candidate Barry Goldwater wrote on the subject of selling: "I walk into a store and approach a department, say the cosmetic department, and ask for a package of razor blades. I lay out a $5 bill and I will buy anything up to that amount that the salesperson suggests. Believe it or not, in trying this over ten years, I have had only two salespeople get the entire $5. American business has just forgotten the importance of selling."

Searching for a Sales Pitch

Retail Expert Wanted a Sweater, But Got a Cold Shoulder Instead

While merchants are busy blaming the economy for their woes, Stanley Marcus points his accusing finger at them.

During a recent stroll through some of New York

– NEW YORK TIMES

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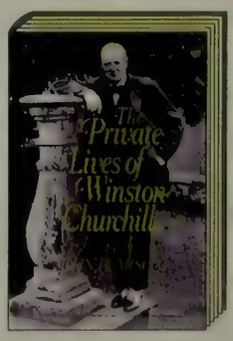
Alan Becker/The Image Bank

DOGGED BY DEPRESSION

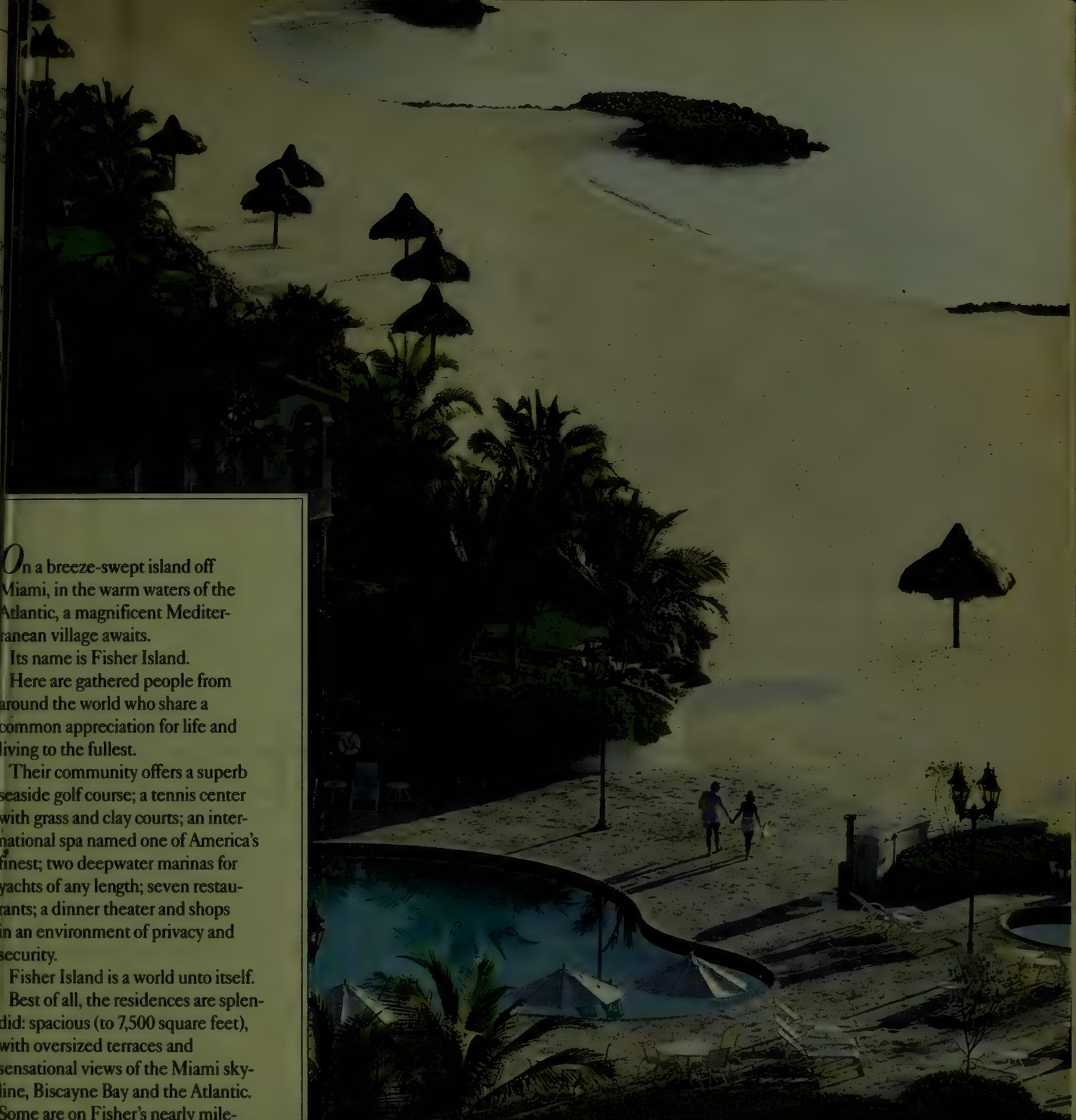
The Private Lives of Winston Churchill—by John Pearson (Simon & Schuster, $27.50). This otherwise conventional biography of Britain's greatest figure sets itself apart by focusing on the severe psychological problems of Churchill and his family. While thankfully avoiding the usual psychobabble, it paints an overly harsh portrait of the savior of Western civilization. There's hardly a nice word about anyone except Churchill's youngest daughter, Mary, whose strong-willed governess supposedly sheltered her from the destructive influences of her parents. But, as the book makes plain, almost all of Churchill's ancestors were afflicted with depression. Sir Winston's own extraordinary will (they didn't have antidepressant medication in his time) prevented what he called the "Black Dog" from destroying him.



Excerpt: *The arrival of their first "Puppy-kitten"—a redheaded daughter, seems to have delighted Churchill.*

"Is she a pretty child?" Lloyd George asked him. "The prettiest child ever seen," the proud father answered.

"Like her mother, I suppose," said Lloyd George. "No," said Churchill. "She is the image of me."



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The Subaru SVX

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(Which explains why we're only making 12,000 of them.)

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Which leads us directly to the new Subaru SVX.™

The Subaru SVX is a different type of sports car. For starters, it won't break down every other Thursday. It has room for more than one, possibly two emaciated adults. And it's also loaded with the comfort features and amenities you'd only expect from an obscenely-priced European luxury coupe.

Okay, let's begin with the reliability aspect of an SVX.

All we have to say is the SVX is a Subaru.® And 93% of all Subaru cars registered in the last 10 years are still on the road and running today.[1] (We like to think the other 7% are on blocks being stored as collectors items.)

How about the room for more than two starved adults?

Well, the SVX has roomy back and front seats and over 85 cubic feet of passenger space in all. That's enough room for four adults who haven't been on a diet in years.

Lastly, the life-improving amenities. The SVX has a sunroof. A soft grain leather interior. All-Wheel Drive. A 6-speaker CD player. A 4-Channel Anti-Lock Braking System. Driver's-side air bag. A patented noise-reducing window design. And you can buy a fully-loaded SVX now for well under $30,000,[*] which, in the overpriced performance category, qualifies as a remarkable deal.

The limited edition 230 horsepower Subaru SVX. It's designed for those rare well-adjusted, socially-involved sports car aficionados.

Subaru SVX

Subaru. What to drive.™

[1] Based on R.L. Polk & Co., registration statistics. [*] Based on suggested retail price of $28,350 for the SVX with optional Touring Package and Rear Deck Spoiler. Does not include dealer preparation, inland transportation, taxes, license and title fees. Dealer's actual price may vary. For additional information, 1-800-284-8584. See your participating dealer about the SVX Freedom Lease. © Subaru of America, 1991.

Other Comments

Couldn't Leave Home

THOSE [political analysts] who saw Governor Cuomo's equivocations as elements of a master plan, and said so on national television, are now faced with an extravagant mystery. Those who always doubted that a man who hates to sleep in strange beds could run for President now seem strangely credible.
–ELIZABETH KOLBERT, *New York Times*

Germany's Europe

A FORMAL U.S. request to Bonn to withhold its recognition of Slovenia and Croatia was never answered. The German decision to choose its own path after 45 years on America's leash is a declaration of independence that immediately weakens American leverage in Europe and hence in the world. The Germans seized leadership of the new Europe by simple acceptance of the age-old American dream of self-determination and independence. [They] moved far ahead of the U.S. in recognizing Soviet republics, starting with the Baltics. If the Baltics and Ukraine, why not Croatia and Slovenia?

Against clear signs of the western world going the other way, the U.S. hedged and equivocated. Bush and Baker have seemed locked in the dream of rebuilding the lost past, from the salvage of a centralized power in what used to be the Soviet Union to the holding together of a palpably artificial Yugoslavia.
–ROWLAND EVANS and ROBERT NOVAK, *New York Post*

How To Make a Million

IF I WAS 40 years old and I had $100,000 and I wanted to run it into $10 million, I'd go to the Soviet Union and invest it, because it is going to be a booming economy one of these days. If I was worth $10 million, I'd invest $100,000 of it in the Soviet Union and no more.
–ROBERT S. STRAUSS, U.S. ambassador to Moscow

Politics of Hope

THIS IS a time of great opportunity for the West. We've never had this kind of Russia to work with. The best analogy is this question: Are we looking at Germany after World War I or Germany after World War II? In the first case, you create a democracy and the democracies outside give it verbal support but no economic support. As the economic situation deteriorates, with high unemployment and inflation, you get a former empire, feeling humiliated, turning to something resembling fascism. There are a lot of signs that it's more like Germany after World War II in the former Soviet Union. The politics of hope has replaced the politics of fear. That hope can't be allowed to disappear. They need some immediate food and medicine. They need economic help for the courageous new plan announced by Yeltsin. They need to have massive exposure to the institutions of a functioning democracy.
–JAMES BILLINGTON, Russian historian, Librarian of Congress, *New York Times*

"I foresee an upturn within the next six to eight million years."

An economist is a person who, when he finds something that works in practice, wonders if it will work in theory.
–WALTER HELLER, presidential economic adviser, 1962-68, *Business Babble*

Newest Growth Industry

"THE ONLY THING that is for sure is that you should have gone out and bought some Rand McNally stock some time ago."
–SECRETARY JAMES BAKER, to reporters after visiting five Soviet republics

Killer Cows

ENVIRONMENTAL activists have recently uncovered a plot to destroy The Planet. A foreign race has managed to infiltrate our most pristine spaces with a simple but devastating scheme: to stomp, chew, and defecate The Planet into oblivion. They are The Cows. The truth began to surface in the late 1980s, when environmentalists discovered that bovine flatulence was a source of methane, a greenhouse gas. But that was only the beginning. The Cows are wreaking havoc on the Western Plains—devouring grasslands, pooping in rivers and driving their Politically Correct counterparts, The Buffalo, from their natural habitat.
–MATTHEW HOFFMAN, *The Free Market*, Ludwig von Mises Institute

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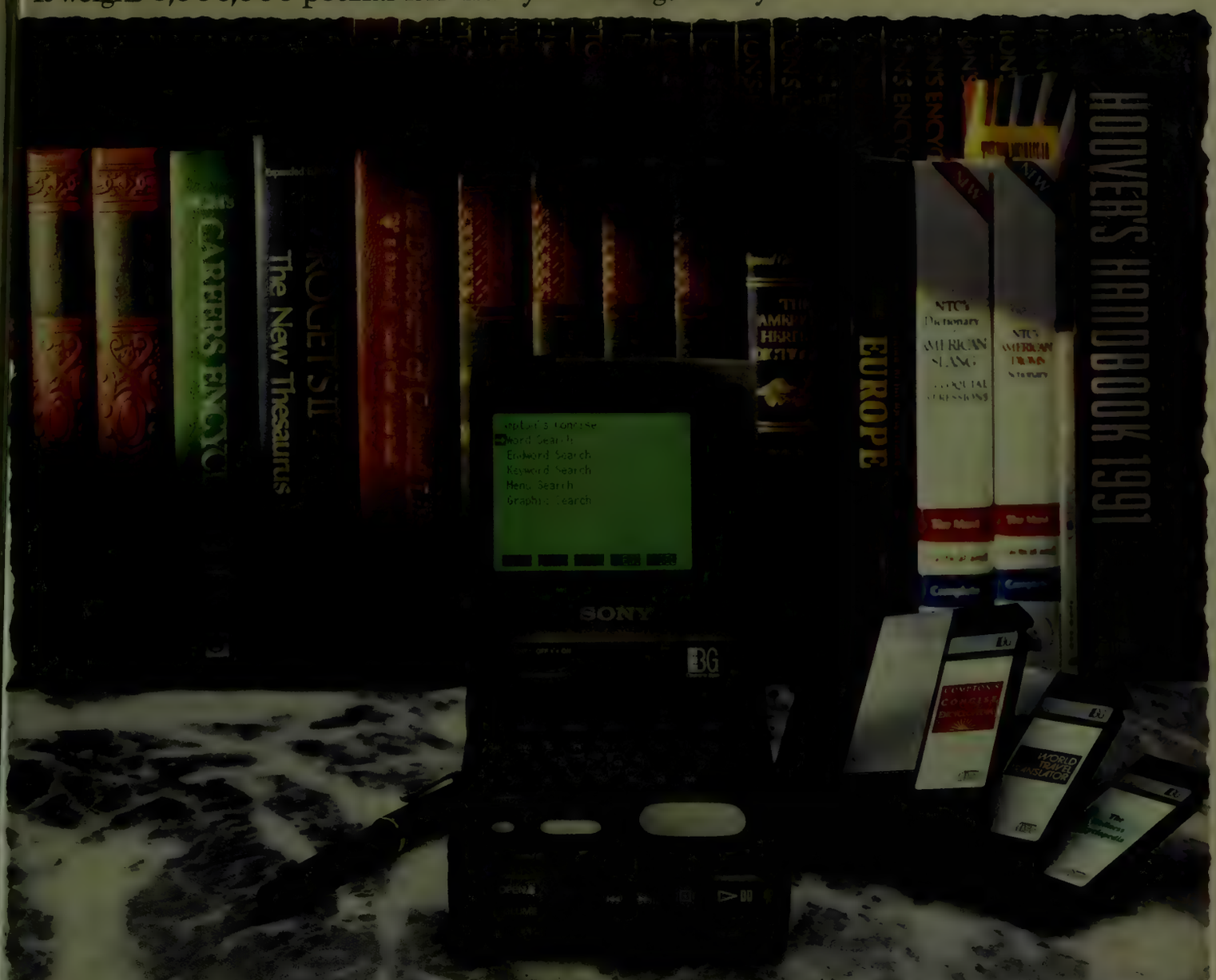

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The Golden Gate Bridge, photographed by Morley Baer.

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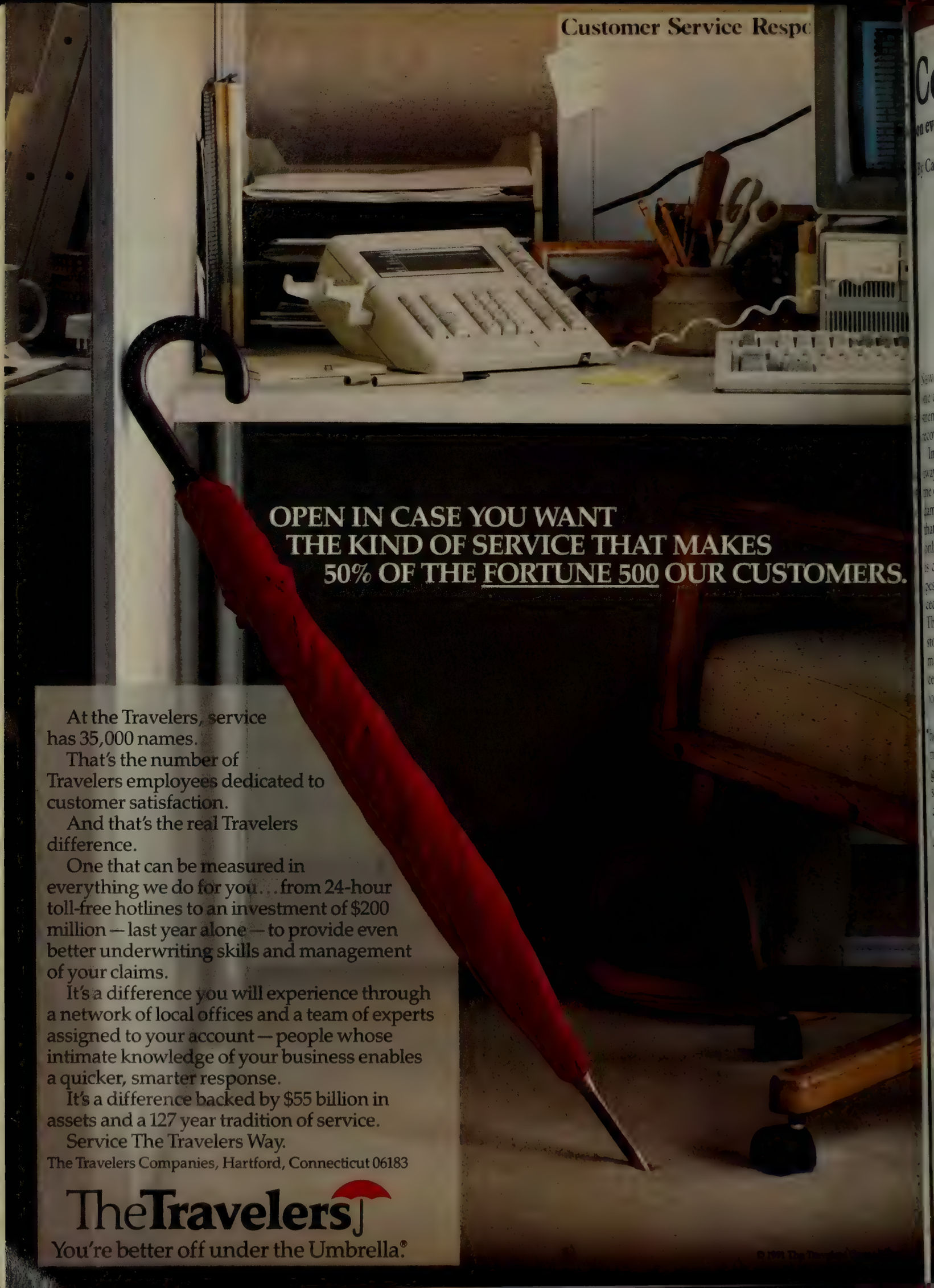
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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

GOOD NEWS FOR 1992

NEW YEAR'S SHOULD be greeted with whatever good news one can find. Domestically, let us note again all the basic strengths of our economy that should lead to some visible recovery by the middle of the year.

Inflation, interest rates and unemployment are all far away from their crisis points. Inventories remain low, and the only thing (but it is a very, very large factor) putting a damper on the economy is the complete lack of confidence that anything good will happen in the next few months. If only some real confidence in the future can be regained, it is quite possible that by midsummer even the darkest of pessimists will have to concede that the recession is over. The most likely engine to restore confidence would be major tax cuts, including incentives for investment in job-providing activities.

In the foreign affairs field, however, there are two elements of extraordinarily good news that could, and should, lead to a vastly better and safer future for us all.

East News/SIPA

Birth of the Commonwealth of Independent States.

In the large area that used to be called the Soviet Union, there are many happy harbingers of a better life for the millions there and of a safer world for all of us. This is primarily because Mr. Gorbachev is at last out of power and the U.S.S.R. is gone. The U.S. has finally accepted this and is now supporting—in the way it should have long ago—the emerging, independent, sovereign republics of the former U.S.S.R.

It seems safe to say that at least 90% of the people and an even higher percentage of the republics wanted freedom from Soviet rule and the depths into which Gorbachev's rigid adherence to communism and socialist economics had dragged the country. Now that the republics are on the road to achieving release from that bondage, we can and should help them in much the same way our nation was helped in the years following the Revolution.

These newly freed republics, most of which have banded together in the loose commonwealth organization now developing, will be fully occupied with trying to survive and trying to pull their economies back from the abyss that yawned ever wider and blacker in the days before Gorbachev finally gave up. While there will undoubtedly be some disputes among the many diverse groups in these republics and in the initial relationships of the republics to each other, the prospects for all seem infinitely brighter because they are ridding themselves of the leaders and policies that are responsible for the miserable quality of life they have been experiencing for so long.

The conventional wisdom is that the four republics that have nuclear weapons on their soil must somehow continue to adhere to a central organization that has control over all those weapons. My own feeling is that we now have an unrivaled opportunity to negotiate true and deep reductions in these weapons, and, at the same time, we can be of major assistance to these republics in their fight for economic recovery. It is infinitely easier to negotiate arms reductions with countries that are far too busy trying to exist, let alone harbor any aggressive military agendas requiring nuclear weapons.

If, instead of worrying about a central authority, we adopt and maintain the twin objectives of getting these new nations on their feet and helping them to rid themselves of the dangers and costs of their nuclear weapons, we will all be vastly better off. This will take time and patience, but if those objectives are achieved, the world will be a happier and safer place.

Meanwhile, in Korea, two major agreements between the North and the South, the first since the 1953 cease-fire, beckon both sides to a comprehensive peace. The agreements renounce the use of force and establish the Korean peninsula as a nuclear-free area. Both North and South have agreed they will not manufacture, possess, use or deploy nuclear weapons. Even better, there appear to be adequate enforcement provisions.

If the North keeps its promises and if the spirit of the new Korean agreements is realized, then in both the East and West we could see a vastly better world—a world made possible by the complete vindication of our policy that true peace and freedom will be brought ever closer by our strength and that of our allies. ■

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60	$941,092	93%
70	$2,067,193	85%
80	$4,365,253	68%

$50 MILLION
Federal Estate Tax: **$27,500,000**

Age	Discounted TaxCost*	You Save
60	$1,881,490	93%
70	$4,133,746	85%
80	$8,729,252	68%

$100 MILLION
Federal Estate Tax: **$55,000,000**

Age	Discounted TaxCost*	You Save
60	$3,762,980	93%
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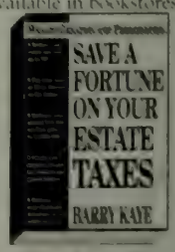


"Much useful advice from a pro."– *Forbes*

* BASED ON CURRENT ASSUMPTIONS ©1991 WEALTH CREATION CENTERS

The best Christmas present for the economy

THIS IS IT! Expect no more cuts in interest rates from the Federal Reserve. The 1% cut in the discount rate, to 3½% on Dec. 20, will be the last one anytime soon. As one Washington insider put it, those who are still dithering over investment decisions in the hope of lower rates to come should stop dithering.

Wall Street got the message and the stock market hit record highs. Much more important, the long end of the bond market also took heart, and the spread between 3-month Treasurys and 30-year bonds began to fall. Mortgage rates will follow in the new year, perhaps to 7.6% for a conventional 30-year mortgage.

That means lower monthly house payments ahead, especially for the flood of homeowners refinancing their mortgages, adding spending power to consumers' wallets. Add to that the so-called wealth effect from higher stock market values, and the result should be much stronger consumer spending, which accounts for two-thirds of the total economy. That should finally break the back of the recession.

Some monetarists, such as Professor Alan Meltzer of Carnegie-Mellon University, worry that the Fed has gone for a short-term spurt of growth in time for the election at the expense of higher future inflation. "Such a large cut was unnecessary. The economy was going to recover anyway," he says. But the calculation by the Federal Reserve's policymaking Open Market Committee was that it could afford to make a 1% cut. Consumer-price inflation has been running at or below 3% since last June, and is likely to stay that low for the foreseeable future. That means that the real, inflation-adjusted discount rate is still positive by a small amount and is unlikely to reignite inflation. In previous recessions the Fed has typically cut the discount rate to below zero in real terms.

The devil take the hindmost

THE FED'S SHARP cut, coming a day after the German Bundesbank raised its discount rate by ½%, to 8% (the highest rate since the 1931 Depression), marks the end of even the pretense of coordination among the Group of Seven major industrial economies. This has been in place since the Louvre Accord was created in Paris in 1987.

One result of coordination is that money growth in the economies of the G7 (the U.S., Germany, Japan, Britain, France, Italy and Canada) has fallen, from a broad average of around 8% from 1982 to 1988, to barely 3% now. This has helped moderate the volatility in exchange rates among the dollar, the German mark and the Japanese yen that was seen in the early 1980s. Another intention was to squeeze inflation out of the world economy. But the extremely tight money policy has coincided with a disinflationary trend already under way; the effect, though unintended, has been to squash world economic growth.

Now the major economies will follow policies set in their own best interests. The U.S. cut rates to encourage both domestic growth and exports, which will get a boost as lower rates weaken the dollar. The Germans, concerned about the effect of the cost of unification on inflation, now running at a 4% annual rate, have applied the brakes just as their economy is going into serious recession. The trouble this will create for the rest of Europe is of no concern to the Bundesbank. Japan's central bank, concerned that growth in that country has slowed to around 3½%, cut its discount rate by ½%, to 4½%. Because this will tend to keep the yen weaker than it should be, at around today's 126 to the dollar, the move will encourage exports—which are in any case headed for a record $110 billion surplus in 1992.

The biggest change affects the relative cost of capital, which is rising in Japan and Germany and dropping fast in the U.S. And investment by American business is now expected to be up by 9% in real terms in 1992.

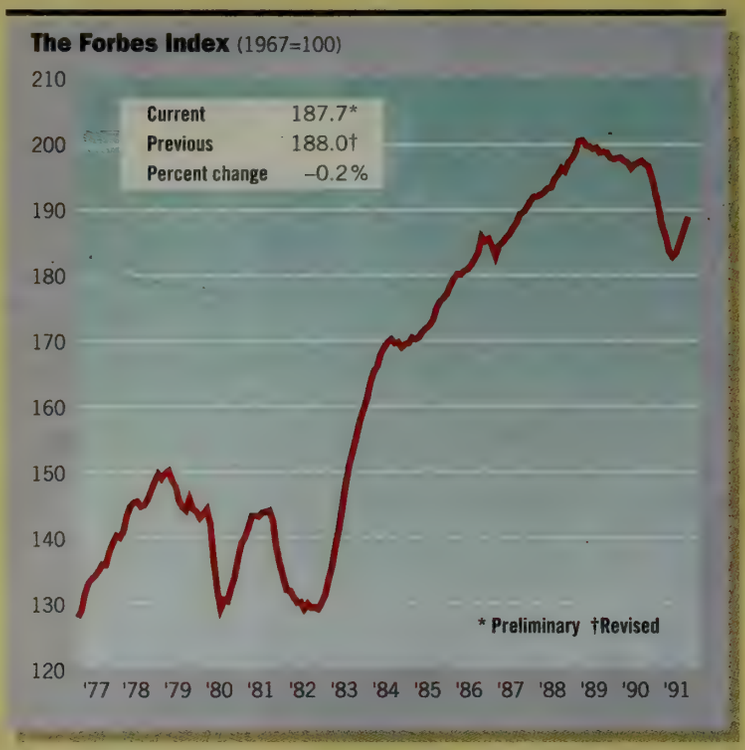
Two senators who prolonged the recession

HISTORY WILL probably not record it quite this way, but the fact of the matter is that Senator Donald W. Riegle (D–Mich.) and Senator Terry Sanford (D–N.C.) prolonged the recession by about ten months. How come so harsh a judgment? Because that is how long they blocked the confirmation of Lawrence B. Lindsey as Fed governor. Lindsey, a Harvard economics professor on loan to the Bush White House, had the temerity to point out, during his confirmation hearings, that the size of the budget deficit was more the result of congresssional stalling over spending than the Reagan tax cuts.

But the presence at the Dec. 17 Open Market Committee meeting of two new governors, Lindsey and Susan M. Phillips (formerly professor of finance at the University of Iowa), was the deciding factor. After much wrangling, their votes tipped the balance in favor of the 1% rate cut. It could have happened last summer.

THE FORBES INDEX

BY TIMOTHY DODMAN



Are lower interest rates a quick stimulus to the housing market? It hasn't happened yet. Only 75,300 homes were started in November 1991. If the December figure comes in below 52,000 units, it would bring the 1991 total to fewer than 1 million starts, making last year the worst year for homebuilding since 1982. Mortgage rates may be a bargain, but people are reluctant to buy when they hear about layoffs and see home prices falling in many regions. Earned income, an annualized $2.8 trillion in November, has barely kept up with inflation over the last 12 months.

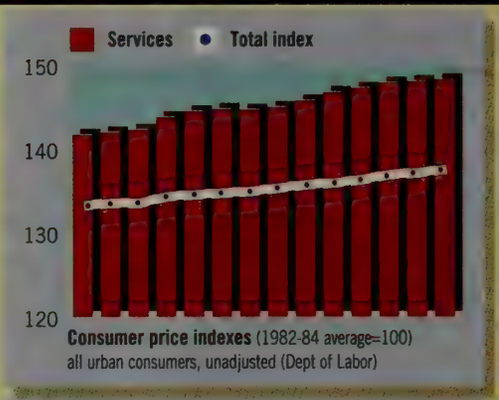
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	[illegible]
Auto sales year to date vs 1990[1]	Ward's Automotive	–11.3%
Index of leading indicators Oct vs Sept	Dept of Commerce	0.1%
Trade balance 12 months ended Oct 1991	Dept of Commerce	–$71 bil
All-commodity producer price index Nov vs Oct[2]	Dept of Labor	0.0%
GDP 3rd quarter vs. 2nd—annualized growth	Dept of Commerce	1.8%
M2 (3-month change)—annualized growth[3]	Federal Reserve	1.4%

[1] U.S.-based manufacturers, excludes imports, as of 12/10/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

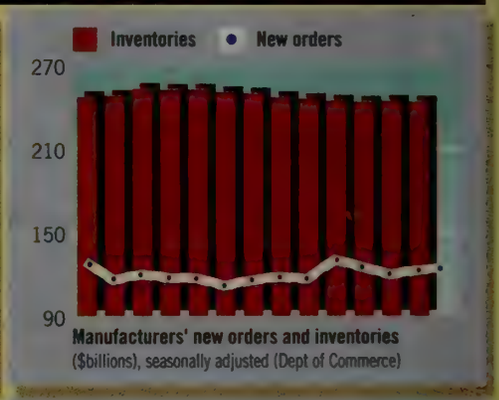
Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



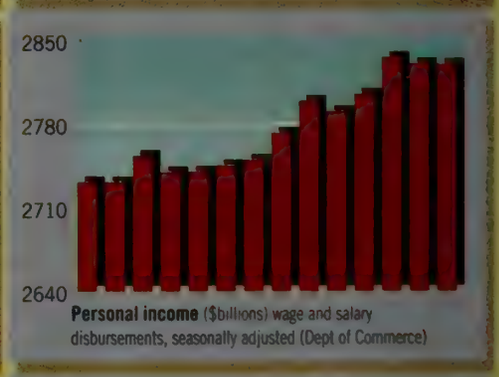
Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)



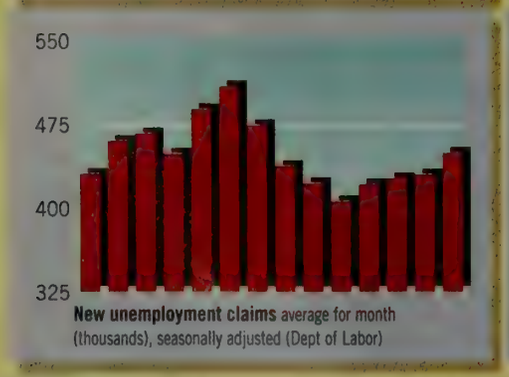
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)

Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

O N D J F M A M J J A S O N O N D J F M A M J J A S O N O N D J F M A M J J A S O N

Where do you suppose they keep the Range Rover?

A Range Rover is quite at home in weather that would keep other luxury cars, well, at home.

After all, with its permanent 4-wheel drive and powerful V-8 engine, you can plow through unplowed roads.

Tool along slushy streets.

Make it up sleet-covered hills.

And easily cope with conditions that would discourage a sled dog.

In fact, the Range Rover County even comes with an anti-lock braking system considered by many to be the most sophisticated one on four wheels.

LAND ROVER RANGE ROVER

Which not only means you can drive with a reassuring amount of control.

You can stop with it too.

So why not call 1-800-FINE 4WD for the name of a dealer near you?

Granted, with Range Rovers starting at just under $39,000, it's not the sort of thing one should take lightly.

But then, neither is a ton of snow.

Bob Stempel isn't just closing plants and firing workers. He's addressing GM's most basic problem.

Platform madness

By Jerry Flint

WHEN HE announced that General Motors would have to close a score of plants and eliminate 74,000 jobs, Chairman Robert Stempel shocked the country but did not surprise it. That GM was loaded with too much capacity was obvious. What the press didn't seem to understand, however, was that this was a long-range GM plan spread over four years.

The changes couldn't just happen overnight. GM's 91,000 white-collar workers and most of the 304,000 blue-collars on GM's U.S. work force aren't just sitting around. They're designing, engineering and building cars. GM's problem is that too many of them are working on products that aren't profitable and probably never will be again.

GM has too many similar products—not look-alike cars, but different cars that appeal to the same customers. And those cars, though aimed at the same markets, each get their own crew of designers, engineers and factories. Call it platform madness.

The platform—which is the metal framework, the base upon which the engine is set and the sheet metal hung—is the starting point for any automobile. Not all Chevys, for example, are built on the same platform. Big Chevrolet Caprices are built on one platform, midsize Luminas on another, smaller Cavaliers on a third. At GM, too many similar cars have different platforms. Take the Chevrolet division's Cavalier (which, internally, GM calls the J body) and the Corsica (called the L body). The cars are only an inch from each other in length, and only 120 pounds in weight. Yet each car is built upon a different platform. The Cavalier is older, going back to the 1981 model year, but when the Corsica was introduced in the 1987 model year, GM kept building its Cavalier, too.

Or take Buick. In the midsize range—cars that seat four to five people comfortably—GM builds the Buick Regal, length 194 inches; the older Century, with a length of 189 inches; and it has just introduced a new version of the Skylark, which also is 189 inches long and weighs nearly the same as the Century. Three similar cars. Three different platforms.

In all, in the U.S. GM sells cars built on 19 different platforms. Ford Motor Co. covers the same range as GM but uses only 6 platforms. Chrysler made a huge profit comeback in the mid-1980s because it figured out how to build a variety of cars—the basic sedans, the convertibles, the minivans and the longer middle-priced models—from just one platform, its versatile K platform.

GM originally became the world's low-cost car producer by spreading the high cost of engineering millions of cars over two or three platforms. The company went astray when it began downsizing its cars after the 1973 oil shock, and management failed to realize that making things smaller reduces differences. So when managers downsized GM's various lines, the models became more alike.

At that point management should have eliminated some platforms or lines of cars, but that wasn't done. Why not? Lots of reasons. Dealers always could sell some of the older models and didn't want to give them

Too many platforms aimed at the same customer groups

Key GM platforms	Car	Length (inches)	Weight (lbs)	1991 sales*
The J-L-N platforms for smaller cars will eventually be combined.				
J	Chevrolet Cavalier	182	2,520	247,000
	Pontiac Sunbird	181	2,502	86,000
L	Chevy Corsica/Beretta	183	2,638	220,000
N	Pontiac Grand Am	187	2,777	138,000
	Olds Achieva	188	2,772	47,000
	Buick Skylark	189	2,846	57,000
The newer W cars compete with the older A bodies.				
A	Buick Century	189	2,914	123,000
	Olds Cutlass Ciera	190	2,886	130,000
	Pontiac 6000 (dropped for 1992)	—	—	22,000
W	Chevrolet Lumina	198	3,220	209,000
	Pontiac Grand Prix	195	3,282	99,000
	Buick Regal	194	3,320	100,000
	Olds Cutlass Supreme	194	3,375	84,000
The C and H platforms are combined, creating potential flexibility.				
H	Buick LeSabre	200	3,457	103,000
	Olds 88	200	3,404	77,000
	Pontiac Bonneville	201	3,362	67,000
C	Buick Park Avenue	205	3,536	80,000
	Olds 98	206	3,512	57,000
	Cadillac De Ville	208	3,591	138,000

*Units sold through Dec. 10. *Source: Ward's Automotive Reports.*

In all, GM covers the market with 19 platforms. Ford covers most of the ground with 6.

up. From the corporate accountants' point of view, the older platform cars were cheaper to produce since the costs had been depreciated, making older-platform cars very profitable.

Meanwhile, GM's engineers grew sloppy. Instead of figuring how to build a variety of cars from the same basic structure, the old GM technique, the engineers took the easy route: new car, new platform, more engineers and workers.

Result: Over the last 20 years GM has developed a huge work force and inflexible factories, which could build only one platform. This was a luxury GM couldn't afford even before last year, when sales fell to 4.2 million vehicles—two-thirds mid-1980s volume—and the operating loss in North America ran an estimated $6 billion.

Platform madness affects basic productivity, too. GM needs 30 hours to assemble a car that takes Ford 20. "Platform and vehicle systems consolidations will be accelerated," said Stempel last month when he announced the latest wave of layoffs and plant closings. Consolidation is under way but has lots further to go. The C and H car platforms were combined, putting the Buick Park Avenue and Oldsmobile 98 on basically the same platform as the shorter (by 5 inches) Buick LeSabre and Olds 88.

Eventually, the J cars (Chevy Cavalier/Pontiac Sunbird), the L cars (Chevy Corsica) and the N cars (Buick Skylark/Olds Achieva/Pontiac Grand Am) will be built on the same platform, reducing three platforms to one. The A and the W cars will probably also merge. These models—the C and H, the J, L and N, and the A and W platform cars—account for 75% of GM's car production.

Announcements are one thing, carrying them out something else again. It takes years to design and retool a new platform that can be used over a variety of models. But Stempel and his team are moving in the right direction. As Maryann Keller, the well-known automotive analyst, notes, the trick today is to make money from smaller-volume niche cars—and that trick is accomplished by building a niche product off a platform already in use. There is nothing like losing money at the rate of $15 million a day to concentrate the corporate mind. ■

Integrated Health Services' subacute care rates may seem high, but they're a real bargain compared with what hospitals charge.

The $550-a-day nursing home

By Janet Novack

THE 34-year-old businesswoman has been in a coma since suffering cardiac arrest during a cesarean section last May. "We still have faith," says her mother, who brings her infant grandson for visits and reads her daughter the news. "Nobody knows what will bring her back." Meanwhile, she says, her daughter receives excellent care in a special wing of Integrated Health Services Inc.'s Brentwood nursing home in Burbank, Ill.

The cost of this care is also exceptional. At Integrated's 19 special nursing home wings, charges average $550 a day and have run as high as $2,100.

If $550 a day sounds high, you haven't been paying attention to hospital charges lately. Robert Elkins, the 48-year-old psychiatrist who cofounded Hunt Valley, Md.-based Integrated, says that his $138 million (1991 revenues) company is helping to contain costs. Integrated, says Elkins, moves patients who require intensive nursing but not intensive doctoring ("subacute care," it's called) out of even more expensive hospital beds. Elkins says Integrated's subacute care wings, called Medical Specialty Units, charge 30% to 60% less than a hospital would charge for the same level of care.

In part, Elkins is unbundling the cost of caring for people like the woman in the coma. If she occupied a hospital bed, imbedded in the charges would be expensive hospital services, such as the emergency room, that she doesn't use, as well as the hospital's losses on Medicaid and uninsured patients. But in Integrated's subacute care beds, the patient (or, rather, her insurance company) pays fees more closely related to the care she actually consumes. Integrated has lower fixed costs and doesn't take Medicaid or uninsured patients in its special wings.

Tom Cinamon

Integrated Chairman Robert Elkins
Saving 30% to 60% off hospital rates.

Note a medical economics paradox here. Individual insurers save money on individual cases by using units such as Integrated's. But Uwe Reinhardt, professor of political economy at Princeton University, argues that use of such units drives up the nation's overall health care bill. This is because hospitals are left with more empty beds. To cope with high fixed costs, hospital administrators raise their per-bed rates—even at the risk of emptying more beds and driving rates still higher. This paradox works nicely to Integrated's benefit.

Elkins got interested in nursing homes in 1980, after concluding that psychiatric hospitals had peaked. "I knew that half the patients in psychiatric hosptials didn't need to be

there," he explains. His conclusion was a decade premature, but it has been borne out recently as the market value of Community Psychiatric Centers, the $400 million (1991 revenues) psychiatric hospital chain, has collapsed from nearly $2 billion last spring to $650 million recently.

Elkins and a partner started Integrated in 1986 with an investment of $500,000 each. Using venture capital and heavy borrowing, by last spring they were operating 42 nursing homes; of these, 13 had subacute care wings, with a total of 197 beds. In May Elkins sold 52% of the company to the public for $60 million. The money was used to pay down Integrated's heavy debt and to fund continued expansion of the special units.

As of December, fast-expanding Integrated had 313 subacute care beds, 200 of them filled. By the end of 1992 Elkins expects to have 500 subacute care beds. Earnings for 1991 are projected by the company to hit $5.8 million, or 70 cents a share, on revenues of $138 million. In 1992 Elkins sees net of at least $1 a share, on revenues of $180 million plus. Taken public at $14 a share, the stock has risen recently to $22, valuing Elkins' 6% direct holding at more than $10 million.

Some health industry executives doubt that nursing homes can succeed in subacute care, given their image and roots as warehouses for disoriented old people. But insurers are giving the concept a shot. Each filled bed required insurer approval, since policies don't normally cover subacute nursing home care.

Integrated is not alone in the subacute field, although it is pursuing the area more aggressively than other publicly traded nursing home chains. Another public company, Louisville, Ky.-based Vencor, Inc., runs 17 special hospitals for ventilator-dependent patients. Vencor gets about 75% of its patients directly from hospital intensive care units, and charges an average of $900 a day. Its stock has climbed to $44 a share, around 42 times what Alex. Brown analyst Neal Bradsher expects the company to earn in 1992.

Wall Street clearly believes that subacute care—expensive as it is—is a growth business. ■

The Federal Employers Liability Act was enacted to benefit injured railroad workers. These days, what it's doing is enriching lawyers.

Gravy train

By James R. Norman

FRED HARDIN, 73, the embattled president of the nation's biggest railroad union, faced a tough reelection fight this past fall. So the incumbent head of the 100,000-member United Transportation Union (UTU) summoned a meeting. "Invited" were partners from the more than 20 law firms from around the country designated by the UTU to represent injured workers under the Federal Employers Liability Act (FELA). They were asked to chip in $25,000 each for unspecified union expenses. At least some of the lawyers suspected the money would go to Hardin's reelection campaign or his personal use.

Hardin lost anyhow.

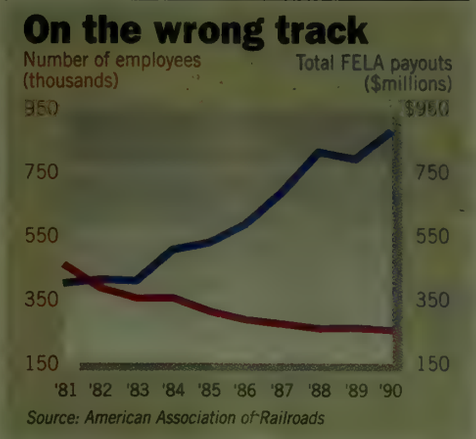
Few people want to talk about the meeting. How many, if any, firms chipped in isn't known. G. Thomas DuBose, who wound up defeating Hardin handily, is still investigating.

This much is clear: Two prominent lawyers who objected to Hardin's request suddenly found themselves booted off the union's lucrative FELA attorney list. Frank Petro was told by his Chicago firm, Henslee, Monek & Henslee, that business was down and his services were no longer needed. Peter Reilly had his Long Island firm dropped from the union roster. Both lawyers have since been

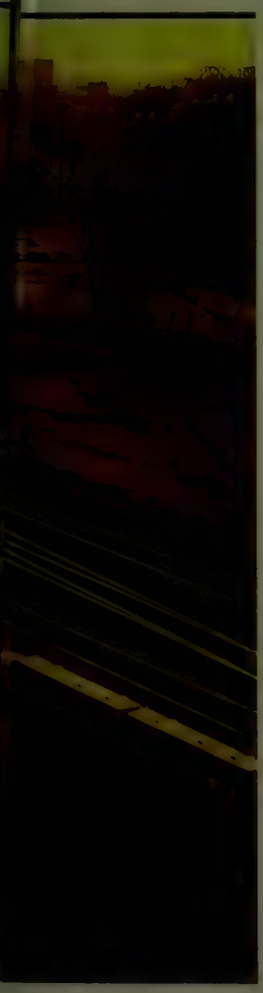
but back on the panel by DuBose, who removed Petro's ex-boss, Martin Henslee, as the UTU's legal coordinator. "Our union is clean," says DuBose, "and it always will be, while I'm president."

DuBose is certainly sincere, yet the apparent shakedown effort is just a sampling of the moral rot created by a law that was one of the country's most progressive pieces of legislation when it was passed in 1908. Established before state workers' compensation programs existed and at a time when crippling accidents were common on railroads, FELA gave employees the right to sue over job injuries. If it can be proved a railroad was the least bit at fault, the injured worker can collect big money, including unlimited compensation for "pain and suffering."

In a less litigious time, this led to relatively few abuses. But today it is an open invitation to legalized plunder. Of the $1.2 billion spent annually on FELA, about half that money actually makes it to injured workers. Unlike a no-fault workers' compensation system, FELA offers a windfall of fees for lawyers.



The runaway train of FELA costs: Payouts surge, despite fewer workers.



Mark Katzman

Terminal Railroad of southwest Illinois **It had to lay off some 60 workers when FELA injury costs hit $3 million, or 10% of its revenues. Its home turf is a hotbed for FELA lawsuits.**

And for the lawyers it is relatively easy work: Only about 1% of FELA cases are actually tried. Railroads settle rather than risk losing at a trial, where evidence of contributory negligence by the worker is often barred under railroad law. Even so, FELA lawyers typically take 25% of the settlement, plus expenses. That contingency fee rises to 33% if the case goes to trial, and to 40% if it is appealed.

Why not simply bring railroad workers under the workers' compensation system or other private insurance? Railroad executives argue that would be one-third cheaper and a lot fairer. "A fault system is grossly unfair and an inefficient way to solve industrial injuries," complains W. Graham Claytor Jr., chairman of Amtrak. More to the point: "FELA is big business," says Donald Ransom, general counsel for Illinois' Terminal Railroad Association, "and it is corrupt."

Here's one way the alleged corruption comes in: To limit damages from lost earnings in FELA suits, many railroads offer to continue injured workers on the payroll at full pay if they agree to rehabilitation. They figure that's cheaper and in the long run better for the worker than if he has to give up his job and fake being disabled. This has intensified the race by plaintiff lawyers to sign up cases before the railroad claims agents arrive—which has bred an unseemly network of law firm investigators who serve mainly as runners, chasing cases even across state lines. Despite strict rules in most unions against it, local officials, who are the first to hear of accidents, are sometimes paid hundreds of dollars a case for timely referrals.

A few such cases have actually come to light. At St. Louis' Terminal Railroad Association, Marty Barton, the UTU general chairman there, was fired last year for disloyalty after he admitted getting $50 an hour from a plaintiff lawyer to "investigate" injury cases. An arbitrator reinstated Barton to his job, with back pay. But a grand jury is still probing whether he was really in an illegal fee-splitting scheme to hustle FELA cases. No charges so far.

Terminal's home turf seems to be a hotbed for FELA abuse. Last year two lawyers there—John P. Kujawski and Rick E. Rosen—were censured by the Illinois Supreme Court for agreeing to pay a former railworker 10% to 15% of the profits on every case he brought them. Another censure proceeding is pending in Illinois against big-time FELA lawyer Paul Pratt, notorious for reportedly entertaining rail union officers in a motor home dubbed the "brothelmobile." Pratt was found guilty of falsifying medical evidence in 24 West Virginia FELA cases.

Getting and staying on the union's approved list is vital to a lot of lawyers. And they spend considerable time and money currying favor with union leaders to do that. Usually the FELA counsel is careful to avoid direct involvement in union politics. But there are other ways. Some FELA firms lavish donations on nonpolitical union events like regional meetings, where they pick up hotel and travel costs for delegates, banquets and entertainment. Such outlays ease the burden on union budgets strained by the drop in dues-paying members, leaving more in the till for officer salaries.

The rail industry has geared up a major legislative push for FELA reform. That might substitute a federal workers' compensation plan similar to the maritime industry's.

But don't hold your breath. Senator Howard Metzenbaum, the Democrat who chairs the subcommittee overseeing FELA, is a former FELA lawyer and vows to filibuster any change. Orrin Hatch, the subcommittee's ranking Republican, is a former FELA lawyer as well, and has a son practicing FELA law. Hatch is as opposed to FELA reform as Metzenbaum.

It's just a question of when and by how much: Taxes are going up, and if you are wise, you are thinking about how to deal with the bad reality.

A paranoid's guide to tax increases

By William Baldwin

THEY'RE TALKING tax cuts in Washington these days: a recession-fighting tax credit for the middle class—whoever they may be—perhaps coupled with a capital gain tax cut for the better-off. Don't be fooled. They are going to raise your taxes, not lower them. The tax increases will probably begin with small, nibbling changes after the election, of the sort seen in a recent deal that financed extended unemployment benefits. After that, the tax increase movement will pick up where the upward bracket creep of 1990 left off and will continue through most of this decade.

John Segal

Three pressures combine to make eventual federal tax increases inevitable. One is that the budget deficit is already high, at $362 billion (fiscal 1992 estimate). Another is that all those layoffs you've heard about will cut deeply into tax receipts. The third is that the American electorate wants national health insurance, and it will cost a fortune. State taxes? They're already going up sharply as politicians refuse to get tough about wage demands and featherbedding by public service unions. Already, California's new top tax bracket is 11%; Connecticut's is 8%.

Who's going to get hurt? Measured by the billions of dollars collected, the biggest share of the damage will be borne by the middle class, simply because that's where most of the nation's personal income is. Measured in rate increases, though, the wealthy and successful will experience the biggest effects as politicians raise high-bracket rates, hoping to take some of the sting off tax hikes for the middle class.

When the Decade of Rate Hikes is over, the economy is sure to be left with some very punishing burdens on thrift and productivity. The way the taxes are levied almost guarantees that the Nineties will be low on job creation and economic expansion.

Look at the law enacted just before Thanksgiving to extend unemployment benefits. As just about any economist will tell you, unemployment insurance is a powerful disincentive to taking low-paid jobs. If a laid-off worker gets $200 a week in unemployment, then a job paying $250 comes with an 80% tax rate built in; figure in Social Security taxes and commuting, and the fellow would have to be crazy to take the job.

How might a supply-side unemployment insurance system work? Unemployment taxes would go into a pot with the worker's name on it. If he collected benefits, he'd draw down the account, or borrow from its future receipts; whatever was left at his retirement would be his.

Now consider the politics. A lot of unemployed people don't have any job offers, not even at $250 a week. If they don't get benefits, they will lose their cars and they will be evicted from their apartments. Something has to be done now. And so President Bush signed a bill that extends unemployment benefits. But note how the new law pays for the extended benefits: by accelerating tax collections from people who have to pay estimated taxes—from the productive, that is. That may or may not be a "fair" way to spread the burden, but it certainly penalizes productivity.

Ferdinand Schoettle, a law professor at the University of Minnesota, sums up the contradictions this way: "The U.S. has a deep philosophical problem. It's clear that in a high-tech world, more capital is better than less. But we're committed to equity."

Equity, of course, is an elusive concept. A progressive tax system takes from $100-an-hour doctors and bond traders and gives to $15-an-hour nurses and messengers.

By itself, this is not necessarily a bad result; perhaps even a majority of the well-off would vote in favor of it. But the system has other effects. It takes money from $20 workers who work long hours and gives to $20 workers who choose to work less. It takes from retired schoolteachers who were thrifty and gives to retired schoolteachers who squandered their money.

What about all the campaign talk about "competitiveness"? It is sincere, up to a point; the capital gain tax cut, for instance, is intended to build capital and create jobs. But at the end of the day, the bills have to be paid, and the only people who can pay are the ones with money—the frugal and the productive, that is.

This ambivalence is vividly apparent in the complex laws relating to retirement saving. The basic law, aimed at encouraging people to save and thus create capital, says that earnings on retirement plans are not taxed until they are withdrawn. But a 1986 law adds a punitive surtax to people who end up retiring with an "excess" of savings. Does the government want you to save or not? It can't decide.

Take heed before you fill your 401(k) to the maximum, since if you end your career with a good pension and a fat Keogh or 401(k) thrift account, you could easily get nailed by this surtax. The surtax, a 15-percentage-point add-on to your regular federal tax, applies to payouts on any form of retirement savings totaling more than about $140,000 a year (indexed for inflation). Congress might well lower the $140,000 starting point or raise the rate, for the same reason it put the surtax in place: The tax raises revenue, and the people who pay it can afford it. Alternatively, Congress may simply start taxing retirement accounts as well as pension plans directly. "There's a huge chunk of cash out there earning huge amounts," says Henry Aaron, a tax economist at the Brookings Institution in Washington, D.C. "It's awful tempting."

Voters hate taxes but they will tolerate taxes that pay for a program they want badly. This phenomenon just about guarantees an income (payroll) tax increase to pay for more national health insurance. It makes quite possible an increase in estate taxes to pay specifically for nursing home care. "Rather than wait until health costs deplete your estate, they'll deplete your estate for you and then pay for your health care," says David Berenson, a tax partner at Ernst & Young.

So if you are skilled enough and fortunate enough to have a hefty income, how can you beat the inevitable tax increases? Spend while you are young. Give away as much as you can to your heirs before you die. If worst comes to worst, the taxpayers will take care of you.

Since voters are assumed to be tolerant of taxes that appear to land on someone else, you can expect the politicians to use some imagination in pushing through their pet schemes. Thus it was that the 1990 income tax increase (2.9 percentage points on wage income between certain limits, currently $55,500 and $130,200) was publicly described as a tax of 1.45% each on workers and employers—as if the boxes on the payroll stub had any bearing on true tax burdens. A true way of looking at that tax boost would be to describe it as half a tax on personal income, half a tax on economic productivity. In a similar vein there was that wacky tax on bank transactions, proposed last summer by Senator John Kerry, the Massachusetts Democrat. Kerry's proposal is now dead, but it's chillingly indicative of what passes for tax economics in Washington.

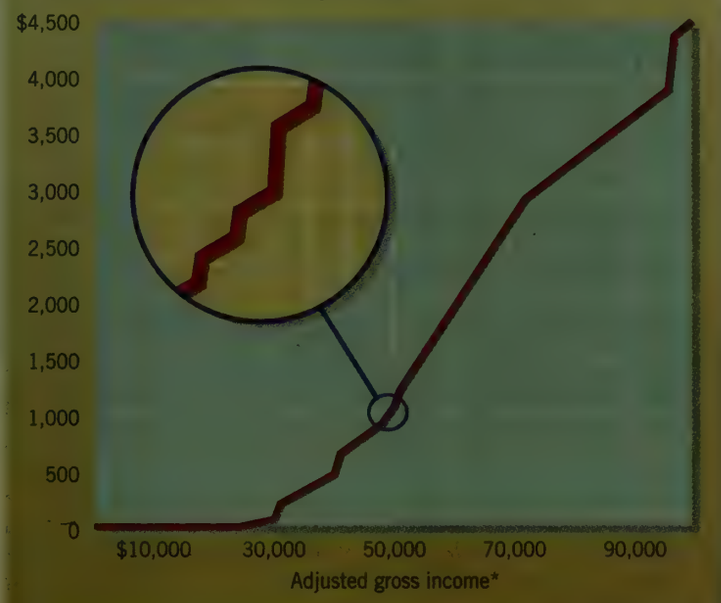
To pay for the savings and loan and bank bailouts, Kerry said in a letter to fellow senators, why not levy a "user fee" on wire transfers and check clearings? A mere 0.02% rate would bring in $85 billion a year. "Small users of the U.S. financial system, amounting to almost all individual taxpayers, would pay only tiny fees, amounting to a few pennies on every $100 check," the letter said.

The low tax rate sure looks like a bargain. But wait a minute. Not quite half the revenue would come in from customers of the Federal Reserve's Fedwire system, which processes $800 billion of transactions a day. What is the economic value of this computer system? The Fed collects about $1 per transfer for the service, or $70 million a year. A quick calculation shows that Kerry was trying to levy a 57,000% value-added tax on the Fedwire. Can you imagine what that would do to the interest rates banks would have to charge on loans and credit card balances?

Presumably no tax so stupid will be enacted, but legislators can still do a lot of damage to the unprepared. So prepare yourself. If you want a sense of where federal tax increases will land, start by looking closely at what's in the tax code now. Congress uses certain less visible portions as

Caution: sharp curves ahead

Connecticut income tax on 1992 joint return



*Federal AGI after Connecticut adjustments.

What's the top state income tax rate in Connecticut? Officially, only 4.5%. But the marginal rate—what you pay on an additional dollar of income—averages 8.1% between $50,000 and $70,000 of income. Up close, the curve gets even steeper than that. Someone making $50,000 who gets a $100 raise sees his tax go up $108.

proving grounds; if a new tax or a denial of a deduction goes down without too much furor, then the rate can be raised or the applicability broadened later.

Did you know that the deduction for state and local taxes, so forcefully defended by Mario Cuomo and other governors, has already been taken away from certain high-income taxpayers? That supposedly "tax-exempt" municipal bonds are now sometimes taxable? That the top federal tax bracket is not 31% but, for some unfortunates, more like 38%?

You lose the deduction for state taxes if you ever come under the spell of the alternative minimum tax. This is a sort of flat tax, with very few deductions, that you pay in lieu of regular tax whenever the alternative minimum comes out higher. Ostensibly, the alternative minimum hits people with too many "preferences"—that is, loopholes of the sort associated with tax shelters. Since 1987, however, high state and local taxes have been treated as loopholes. If tax rates go much higher in places like California and Minnesota, then a lot of wealthy people will be swept into the alternative minimum category and simply lose the deduction for state taxes.

Taxable tax-exempts? This category applies to certain kinds of municipal bonds when held by a taxpayer subject to the alternative minimum tax. The category is fairly narrow now but could be easily expanded in a revenue enhancement scheme.

The tax code also nibbles away at the muni tax exemption in a different formula, one that determines how much of a retired person's Social Security benefit is taxable. The idea is that a wealthy person should in effect lose some of his Social Security because he doesn't really need it. He loses it by having to pay income tax on it, despite the fact that benefits were advertised as tax free for almost all the years he was chipping in to the system. "You get a little nervous about their definition of wealthy," says Ernst & Young's Berenson. In the Social Security taxation formula, "wealthy" starts with $32,000 of income on a joint return.

What's the top federal tax rate? If you think 31%, it's because you take at face value the pronouncements from the Internal Revenue Service. Your true marginal tax rate—the rate you pay on an additional dollar of income—is probably higher.

Here's why. The 1990 tax increase includes a bizarre formula that reduces your itemized deductions by 3% of the amount that your adjusted gross income exceeds $100,000. The formula has the effect of creating a new 31.9% bracket. Then there is another convoluted bracket increase, one that raises your marginal rate by 0.6% for every personal exemption you claim, if your income falls between certain limits. Add another 0.6% if you itemize "miscellaneous" deductions (for accountants' fees, for example). Now throw in payroll taxes, at least 2.9% for self-employed workers making less than $130,200 this year.

Let's suppose that you have two children and you and your spouse each make $100,000. Then your marginal federal tax rate—what comes out of extra money you make this year by working a little harder—can be almost 38%.

Why all these tortured formulas? Why not just put in a 38% bracket? Evidently that kind of tax increase is just too visible.

The table on page 50 compares the official top marginal rates with the true ones. The disparities are a reflection of the bubbles, phaseouts, floors and ceilings with which Congress has larded the tax code. The federal government's habits are contagious. Connecticut recently enacted an income tax billed as having a 4.5% rate. In fact, a complicated phaseout makes the marginal rate much higher for middle-incomers *(see chart, p. 45)*.

A side effect of the back-door bracket increases is that there is now a wedge between income and deductions on the rate schedules. It used to be that a dollar of interest income would just offset a dollar of interest deduction. Now a dollar of income can cost you 35 cents in tax, while a dollar of deduction saves you only 31 cents. Starved for revenue, Congress could easily make this wedge wider.

It used to be hard to come out ahead by borrowing on a mortgage and investing the cash. Now it's even harder. If you have idle cash, you should probably use some to pay down your mortgage. This investment will almost certainly beat a Ginnie Mae fund.

Other possibilities for rate hikes abound. House Ways & Means Committee Chairman Dan Rostenkowski (D–Ill.) has submitted a bill adding a 35% bracket starting at $145,000 of income on a joint return and a 38.5% bracket starting at $1 million. It's unlikely that President Bush would sign such a bill in an election year. Next year, such a law is not inconceivable, especially if coupled with a cut in capital gain taxes. After 1996, anything is possible.

Bracket creep

Tax code provision	Amount
First-mortgage deduction ceiling[1]	$1,000,000
Gift/estate tax exclusion[2]	600,000
Loss of personal exemptions begins	150,000*
Second-mortgage deduction ceiling[3]	100,000
Erosion of itemized deductions begins	100,000*
Landlords begin to lose deductions for losses	100,000*
Foreign earned income exclusion	70,000
Tax-free portion of group life insurance	50,000
IRA deduction phaseout begins	40,000*
Exemption in alternative minimum tax formula	40,000
Taxability of Social Security benefits begins	32,000*
Net capital loss deduction[4]	3,000

*Adjusted gross income; in formula relating to Social Security benefits, AGI is modified by further adjustments. [1]Interest deductible on debt up to this amount used to acquire or improve a home. [2]Lifetime credit equivalent to exclusion of this amount. [3]Interest deductible on home equity loans up to this amount. [4]Maximum amount of capital losses deductible against salary income.
Sources: Ernst & Young; Forbes.

Income tax brackets and the personal exemption ($2,300 for 1992) have been indexed so that inflation does not force taxpayers to pay higher rates. But some key dollar figures in the tax code are not indexed. Here are some of them, for joint return filers.

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*All-new fully electronic automatic transmission. • Source: Car and Driver 11/91 versus 9/91. For more

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The payroll tax is an obvious candidate for increases. The tax, created in the Depression, was sold to the public as a form of compulsory Individual Retirement Account, but Social Security has drifted pretty far from that structure. The tax now starts at 15.3% for low incomes, declines to 2.9% at $55,500 of earned income and to 0% above $130,200. Would you be surprised if Congress moved to make the tax "less regressive" by raising it on higher salaries? Never mind that such a move would sever forever the illusion that Social Security taxes are simple payment for future benefits.

Worst of all, the 34% corporate tax rate probably won't survive this decade. Worst of all because corporate profits finance most expansion, modernization and job creation. Thus each hike in the corporate rate takes a bite out of the nation's limited savings pool. But Congress won't tell you that when it claims it is just making business "pay its fair share."

Several cherished tax deductions have to be considered endangered, at least when claimed by upper-income workers. Did you know that the ceiling on home mortgage deductions is destined to be cut in half over the next 20 years or so? At least, that's the practical effect of 4% inflation on the present law, which allows deduction of interest only on the first $1.1 million of mortgage debt. (For a list of important tax benefits that aren't indexed for inflation, see the table on page 46.) The mortgage limit sounds like a burden only on the very rich, but consider that having put on a ceiling at all, Congress could easily lower it—say, to $500,000.

Congress, of course, could also deny the deduction for vacation homes. "It's only a matter of time before that sacred cow is slain," says Stephen Corrick, a tax partner at Arthur Andersen.

Fringe benefits stand a good chance of becoming more taxable to the high-salaried. Here's one option: Treat employer-paid health insurance as earned income, raising $60 billion a year, then give back most of the $60 billion in the form of tax credits. People in the higher tax brackets would lose in this shuffle.

For hints about what is in store, get a copy of *Selected Spending and Revenue Options* (Congressional Budget Office, June 1991). It's a shopping list for tax raisers.

If tax rates are destined to rise, what should you do now?

Be leery of salary deferment plans. In these plans, executives arrange to receive part of their salary years after earning it. No sense deferring income taxable at 34% only to receive it when the rate is 40%. Couldn't you just grab the money immediately before a planned rate hike goes into effect? Not easily, notes Philadelphia tax lawyer Stephen Hamilton; if you control the timing of the payout, then the IRS may consider the money fully taxable as soon as you earn it.

Don't buy deferred annuities. These quasi-insurance products enable your earnings to compound tax-free, provided you don't withdraw the money before age 59½. When you cash out, you pay taxes on all your accumulated earnings at once. Even under present tax law, annuities are a dubious proposition, since their steep fees and costs have a way of erasing most of the benefit of deferring taxes. If, on top of all those fees, you face higher tax rates, the deferral will backfire.

Don't buy a vacation home. In all likelihood you will be grandfathered when they take away tax deductions for second homes. But the fellow you try to sell to won't be.

If you buy bonds, buy municipals. They'll be worth more when tax rates go up. What if Congress extends existing taxes on munis? Don't worry. Grandfathering will work for you here, since future taxes on munis aren't likely to apply to securities already outstanding.

Give away assets to heirs. Your lifetime $600,000 gift/estate tax exclusion will go further now than it will after ten years of inflation. Worse, gift/estate tax rates could be raised. So, if you can afford it, use that exemption now; don't wait until you die.

If you have a choice, don't settle in a high-tax state. Taxes in New York, California, Minnesota and Massachusetts are high, certain to ratchet upward, and likely to become less deductible at the federal level. Also, California and New York are trying to tax the retirement income of former residents long after they have left.

Stay away from media stocks. The congressional hit list includes advertising deductions. Another target is business entertainment, currently 80% deductible. Don't open a restaurant.

Take small capital losses now. You can deduct them, dollar for dollar, against up to $3,000 of salary income. If the capital gain tax is cut in half, you will probably need $2 of net losses to get a $1 deduction.

And, unless Congress suddenly gets a dose of capitalist religion, expect a period of slow growth in the economy. Unfortunately, those taxes most palatable to the public are the very ones that bite into productivity and savings. ■

What's your rate?

Type of income or asset	Ostensible top marginal rate	True top marginal rate
Estates	55%	60%[1]
Corporate income	34	39[2]
Earned income—lawyer	31	38[3]
Interest and dividends	31	35[3]
Earned income—cab driver	28	41[4]
Capital gain	28	32[3]
Alternative minimum income	24	30[5]

[1]From phaseout of credit and lower rates. [2]From phaseout of lower rates. [3]Assumes self-employed lawyer married to another well-paid person; two children; family income of $200,000; family claims miscellaneous deduction. [4]Includes self-employment tax. [5]From phaseout of $40,000 exemption.

Your marginal tax rate—what you pay on an incremental dollar of income—is the tax rate that matters to your willingness to work overtime or to invest. It may be higher than you think. Above are the rates as published in IRS rate schedules, followed by true marginal rates. The latter include payroll taxes and the quirky effect of various phaseouts and givebacks built into the tax code. Not included: state and city taxes.

Talent agent Marvin Josephson fell on his face when he tried to run a conglomerate, but back in Hollywood his ICM has lost none of its touch.

Know thy limitations

By Lisa Gubernick

"I HAD A certain amount of hubris," Marvin Josephson says. That's putting it mildly. A former lawyer who built International Creative Management into a successful peddler of entertainment flesh, Josephson somehow got it into his head that he could run any business—Hollywood does that kind of thing to people.

Josephson used proceeds from a $20 million 1983 public offering to buy a series of office products companies, a clutch of radio stations and even a stock brokerage firm for ICM's parent, Josephson International.

Disaster. Brought public at 15⅝ a share, Josephson International's stock sank as low as 6½ in 1985. Herzfeld & Stern, the brokerage firm, lost a total of $9.6 million on operations in 1984 and 1985. Josephson sold off the brokerage firm and a stake in an investment management outfit in late 1985, which resulted in a $37 million loss. In September 1986 Josephson also sold his radio stations. Two years later he took the rest of the operation private, in a $14.52-a-share leveraged buyout, and spun off the office products division.

Edward Sarabione

ICM's Marvin Josephson
"I had a certain amount of hubris."

All that is water over the dam. ICM is riding high again. Josephson has installed Jeffrey Berg, 44, as chairman and James Wiatt, 45, as president of ICM. They have solidified ICM's position as one of two top Hollywood talent agencies, next to Michael Ovitz's Creative Artists Agency. According to Berg, last year the company garnered more than the $69 million in revenues that were projected when it went private; it did so by representing, among others, the top talent in two of last summer's biggest hits, *Terminator 2* and *City Slickers.*

ICM's 150 agents handle some 2,200 clients, including the top-grossing male actor, Arnold Schwarzenegger, as well as the hottest actress, Julia Roberts, along with such stellar talents as Eddie Murphy, Mel Gibson and Michelle Pfeiffer.

Josephson built ICM by acquisition rather than from scratch—which may be what led him to think he could run a conglomerate. His first big purchase was the Ashley Famous Agency, which later became know as International Famous Agency, from Steven Ross' Kinney Service Corp. for $7.5 million in the late Sixties. Then came the $6.5 million purchase in 1975 of Creative Management Associates,

partly staffed with agents who had worked at MCA until the Justice Department forced the company to divest its talent agency.

Putting those two agencies together was tougher than it sounds. They were very different outfits. "The CMA agents were much more freewheeling than we were," says Josephson. The CMA agents were flashy, given to hair-raising expense accounts; one had even built himself a home screening room on the company tab.

Josephson succeeded in tightening fiscal controls but allowed the agents to retain their idiosyncrasies—a key to the company's current success. "I don't like to be told what to do with my clients," says ICM agent Edward Limato, who left William Morris three years ago and brought Michelle Pfeiffer, Mel Gibson and Richard Gere with him to ICM. Why didn't he go to the mighty Michael Ovitz? "I don't think I'd fit in there," he says, running his fingers over substantial stubble. "I haven't shaved since last week and I don't want to have to worry that Mike Ovitz is going to frown at me."

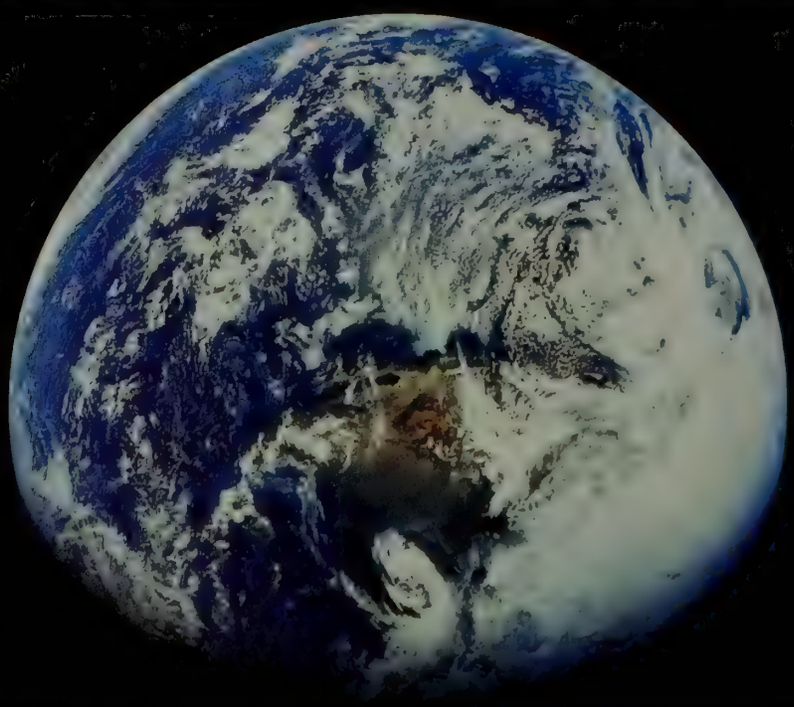
John Lowry Outline

ICM's chief executive, Jeff Berg

A $50 million deal for the Ninja Turtles.

That reputation for diversity is precisely what lured over a group of five William Morris agents last year. Together, they brought some 30-odd clients, including Julia Roberts, Anjelica Huston and directors Alan Pakula and Norman Jewison. Says one William Morris defector, Elaine Goldsmith: "ICM is a group of iconoclastic people. I fit here."

Not the least of the curious characters involved with ICM is a controversial Dutch banker and former head of the film division of Crédit Lyonnais, Frans Afman, whom *Variety* once called "The Happy Checkbook." It was Afman who lent Crédit Lyonnais money to Menachem Golan and Yoram Globus of Cannon Group prior to Cannon's brush with financial disaster. In 1987 the SEC charged Cannon



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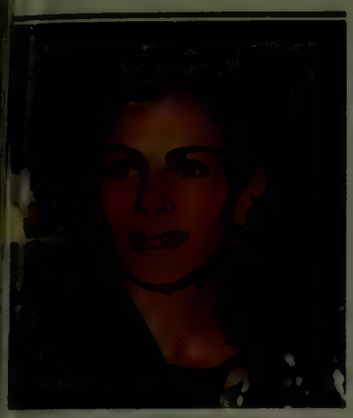


Julia Roberts

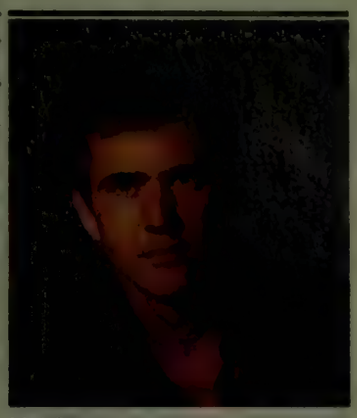
ICM's stars.

Bonne Schiffman/Onyx

Eddie Murphy

DF/Outline

Michelle Pfeiffer



Greg Gorman/Gamma Liaison

Mel Gibson

with, among other things, failing to disclose in its 1985 proxy that Afman was receiving $75,000 per year. Cannon later settled the charges with the SEC. Afman maintains he did nothing wrong. In any event, he left his staff position at the bank to become a consultant not long after.

One of Afman's apparent jobs is to expand ICM's foreign business. Even without Afman, ICM's foreign business has been growing. After the huge success of *Teenage Mutant Ninja Turtles*, Berg approached the film's producer, Golden Harvest International. Would Golden Harvest let ICM represent it on its next deal? The answer was yes, and Berg negotiated for upfront fees of $50 million for Golden Harvest, $48 million more than what Golden Harvest made in advance fees for the first film.

In television, ICM helped procure financing for producer client Michael Mann's six-hour miniseries *Drug Wars*. In return for foreign rights, a Spanish film company and two European banks provided the $10 million needed to produce the series.

Josephson is now 64 and basking in his successors' achievements. He recently signed on two new clients: Norman Schwarzkopf and Margaret Thatcher. His hubris remains sharply reduced, but his agenting skill seems, if anything, enhanced.

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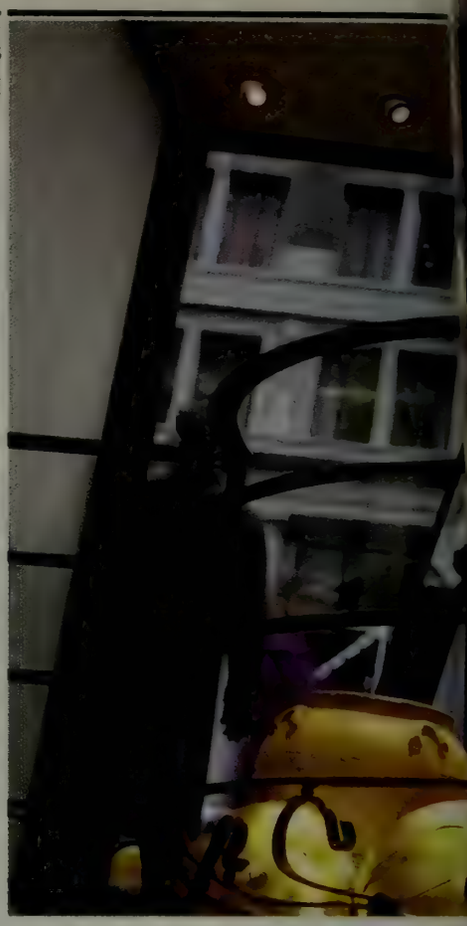
Meet the Fang brothers. You may already be wearing some of their clothing. Soon you or your family will be shopping in their stores.

Closer to the consumer

By Phyllis Berman with Jean Sherman Chatzky



Richard Bowditch

THE FANG BROTHERS, S.C. and S.H. Fang, were just another pair of refugees among the hundreds of thousands who fled to Hong Kong from the communist takeover of China. Cotton traders in the Lower Yangtze region about 30 miles from Shanghai, they struggled against great odds to rebuild their business. They succeeded brilliantly. Today S.C. Fang Brothers does roughly $450 million in sales from factories in Malaysia, Thailand and the Philippines, and from a fast-growing retail chain called Episode.

You may not have heard of the Fang brothers, but you may well have worn their products. For the last decade they have supplied T shirts to stores like the Gap and blouses to designers like Calvin Klein.

The Fangs are one of the largest of the dozens of families who dominate the textile industry in Asia. Many well-heeled refugees from Canton and Shantou regarded Hong Kong as their permanent home, sinking billions into property. But Shanghainese like the Fangs chose manufacturing. Having had to run once, they knew they might have to run again. Textile manufacturing, unlike office buildings and hotels, can be moved easily. In preparation for their escape from mainland China in 1949, the Fangs ordered hundreds of cotton spindles—the newest, most technologically advanced. But instead of shipping the machinery to the mainland, the Fangs told the vendors to store them in Hong Kong.

Within 15 years of coming to the island, the Fangs succeeded enough to send all of their children, four boys and two girls, to college in the U.S.

Today four brothers, sons of the late S.C. Fang, own equal shares in the family business: Kenneth, 53; Lawrence, 51; Vincent, 49; and Jeffrey, 45. Their father died last year at age 81. Their uncle, S.H. Fang, is in his late 70s and has retained a tiny $3 million fabric-making operation to run. Says Kenneth Fang, "Our father knew every detail [about the business]. That was what he taught each of the brothers. That attention to detail. We all have that."

Mary Beth Camp/Matrix

The Fangs **Kenneth, Vincent and Lawrence at one of their Hong Kong factories.**

In 1997 Hong Kong reverts to China. Anticipating the event, most wealthy Hong Kong Chinese have shipped capital abroad, buying skyscrapers in Vancouver and hotels in Sri Lanka. Safe stuff. But the Fangs are following a riskier—but proven—course. They are expanding their business, moving closer to the consumer. It is a strategy that has served the family well in the past.

By the mid-1960s cotton spinning in Hong Kong had begun to peak. Other Asian nations were moving into yarn, then textiles, both industries with virtually no barriers to entry.

That was when Kenneth, the eldest, returned from MIT. For four holiday seasons he had shopped the name-brand departments of Jordan Marsh and Filene's. The sweaters being snapped up were made of high-quality threads, but were simply constructed: crewnecks, V necks and cardigans. They would be easy to knock off. Upon his return to Hong Kong, he moved the family into apparel, making sweaters on a private-label basis

Richard Bowditch

ABOVE:
Merchandising by color
One store section is a black-and-white "Episode"; others are bright or pastel.
LEFT:
Christine Ma and Jeffrey Fang
In a New York store.

for U.K. stores. The Fangs were soon major factors in the apparel trade.

Brother Lawrence returned from North Carolina State University in 1969. The family went to its local bank and borrowed enough to expand the spinning and weaving operations. In 1970 Jeffrey returned from the University of Wisconsin and joined his brothers in the sweater business. The next year Vincent came home from North Carolina and the family started a T shirt operation.

Thus, with each new brother the family expanded, taking new risks and reaping new profits. "Our father was concerned, because we are so aggressive, much more competitive than in his old days. He kept reminding us, 'Don't stretch too much. Don't overexpand,' " remembers Kenneth.

The brothers accepted the paternal advice politely, as befits good Chinese, but pretty much ignored it. And a good thing, because the basic business was running into trouble. Almost as soon as the brothers got into apparel, labor costs in Hong Kong began to escalate. Then the U.S. government, in an attempt to protect its own dwindling sweater industry, began to impose restrictions on the quantities of cheap sweaters that could be exported to the States from Hong Kong.

Time to move again. The Fangs simply moved their operations, as they had at the time of the communist takeover. Today the Fangs manufacture in nine countries, making T shirts in the Philippines and Panama, trousers in Thailand and sweaters in Malaysia. It is because of families like the Fangs that Hong Kong, with an $11 billion textile industry, also controls the textile industries of Singapore, Malaysia and Sri Lanka.

What now? When the brothers moved from fabric into apparel, they eliminated one middleman along the way from the cotton fields to the department store. In 1973 Jeffrey and Vincent moved a step further, opening a small retail store called Toppy, a U.S.-style store where Hong Kong teenagers could shop for bell-bottoms and striped vests, and hang out as well. In 1986, when private-label margins began to shrink, Jeffrey and his wife, Christine Ma, launched a major retail expansion with the opening of the Episode Stores chain.

So, soon you or someone in your family may be shopping in a Fang-owned store. So far, Episode has only 27 stores in the U.S., but it is already creating a stir in cities like Dallas and Miami with so-called bridge clothing. Bridge clothing is aimed at customers who want something cheaper than designer outfits like Armani but better quality than the stuff carried in the Limited. A large proportion of the clothes sold by the Episode chain is made by the Fangs in their 20 factories around the world.

Today, between Episode and Toppy, the Fangs have more than 70 stores around the world, from Taipei to London. By 1996 they expect to have 50 stores in the U.S., with another 100 in Europe and Asia.

What distinguishes Episode from AnnTaylor or the Limited? Integration. These U.S. specialty retailers buy their apparel from hundreds of private-label manufacturers like the Fangs. In contrast, Jeffrey Fang says, "We design our product, manufacture it, put our label inside and then retail it in our own stores. We don't bring in our season all at once, but a little at a time, so our repeat customers get to see something new. It keeps their curiosity alive."

Worldwide the Fangs currently do about $100 million in retailing, $250 million in private-label manufacturing business and about $100 million in wholesaling for other Asian apparelmakers. The businesses probably earned at least $25 million in 1991, according to Herbert Chung, apparel analyst at James Capel.

Things certainly have changed for the Fangs since the early years, when sweatshop conditions prevailed in Hong Kong's cotton-spinning industry. But the family adapted. Today the only garments they can afford to make in Hong Kong are the high-markup, detail-intensive ones like Episode's sequined cocktail jackets, which sell for $328. The Fangs have compensated by moving to lower-wage areas—hedging against protectionism with a knitting plant in South Carolina—and by integrating forward toward the consumer.

The family says it intends to continue making Hong Kong its home and headquarters. But the Fangs, remember, are from Shanghai. If Hong Kong becomes untenable, neither their factories nor their revenues will suffer greatly. ■

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THERE'S BEEN A LOT OF TALK about the environment lately. But out on Chesapeake Bay, sailing around on a vintage skipjack, a group of school kids are learning that when it comes to the environment, actions speak louder than words.

Myrtha Allen, Environmental Sciences teacher at P.S. 405, Baltimore, explains, "Most of my kids are city born and bred. They live in apartments, they get their milk in cartons, their eggs in those styrofoam containers. They were about as interested in the environment as they are in

"IT WAS THE FIRST FISH Jawan had seen that WASN'T SURROUNDED by french fries."

MYRTHA ALLEN, Teacher

homework." She smiles at a nearby eight-year-old. "And who can blame them? Some of them, like Jawan here, had never even seen a live fish before."

That's where the Chesapeake Bay Foundation stepped in. Since 1966, when it started in Annapolis, Maryland, with a rented fishing trawler and little else, the Foundation has taken more than 300,000 students out into the Bay to experience the environment first hand. And at the same time making them aware of how important their contribution is to the future of the planet.

Myrtha puts it simply. "To get these kids wanting to clean up the world, we've got to get their hands dirty."

And they do. They get very dirty.

"Oh yeah," chuckles Myrtha, "we do it all. Once we threw a net in just to see what we'd get. When we pulled it up, sure enough there were the milk cartons, the soda cans, the egg containers. And flapping around in the middle of it all was this big, cranky striped bass. You should've seen their faces.

"We took 20 little consumers out on a boat that day. We came back with 20 budding environmentalists."

At Toyota, we're proud that through the support we give to the Foundation more kids like Jawan will be able to experience our fragile environment first hand. And hopefully start playing an active part in preserving it.

Is the program working? "These kids are organizing neighborhood recycling drives,

they're writing letters to Senators. Take a look at these posters some of my students have been doing."

The classroom walls are alive with crayon and pencil. Bright orange crabs. Smiling oysters. Families of ducks.

And one poster that stops everyone. It's of a smiling little boy holding hands with a big striped bass. And boldly scrawled above both their heads is one word: "Brothers".

And it's signed by Jawan. Age eight.

TOYOTA
INVESTING IN THE INDIVIDUAL

Even as Argentina privatizes and deregulates and free-trades its way to prosperity, it wonders why the U.S. seems to be going in an opposite direction.

Who's out of step?

By Joel Millman

DOMINGO CAVALLO, Argentinean minister of economy and public works, knows a lot about the evils of socialism—government control of the economy, massive income redistribution, swelling bureaucracy. In one form or another, imposed sometimes from the left, sometimes from the far right, this tempting but specious doctrine kept his potentially rich country poor for nearly half a century.

Now Argentina is moving fast toward a market economy and is beginning to prosper accordingly. Elected president in 1989, Carlos Saul Menem, a politician of the old school and a playboy to boot, knew something had to be done for the economy but hadn't a clue as to what it should be. He handed the problem to Cavallo, a former minister of foreign affairs and congressman with a Ph.D. in economics from Harvard.

Argentinean inflation, which had been running at 300% annually a year ago, is now only 15%; flight capital is pouring back into the country from Europe and the U.S. and the economy is fast being privatized. Most surprising was that the Argentinean masses didn't take to the streets to defend the old order, which was crafted in their name; they knew that old order to be a fraud.

Reform has been swift and thorough. Thirty-six regulatory agencies have been abolished, while restrictions on all foreign exchange transactions have been eliminated. Cavallo and Menem also pushed through a new currency law that forbids the printing of new money without hard currency reserves to back them.

If Cavallo is thankful for one thing, it is that under the fascist Perón and later under social democratic governments, Argentina never went 100% socialist as the U.S.S.R. and Eastern Europe did. "The problems of the Soviet Union are bigger than the problems we faced in Argentina," he explains. "They never had a market economy. They do not have entrepreneurs. They don't know who owns what. These are all problems of basic identification, of property rights. So it is a much more difficult situation than we had in Argentina."

Reuters/Bettmann

Argentina's Domingo Cavallo
Cutting inflation with fiscal restraint, freeing business with deregulation.

Argentina, for all its harebrained socialism-cum-Perónism, at least maintained close ties to the capitalist world. Its productive agriculture sector—which at one time helped make Argentina one of the ten richest nations in the world—was never nationalized, although it was taxed and regulated almost to death.

Cavallo, therefore, can be pardoned a certain amount of satisfaction, but then he quickly catches himself. "Now we have to avoid the possibility of having excess confidence," Cavallo says with a laugh, sounding almost surprised that being too confident would become an Argentinean dilemma.

"We have to persevere with being very austere in the public sector. Controlling the budget of the public sector, making an open market. If we believe that every problem has been solved, and that we have a stable and well-organized economy, we may go back to excessive spending, and deficits, and borrowing. Of course we are conscious of these risks, and we think we will avoid creating these problems," he says.

Meanwhile, Cavallo watches as the U.S. and other countries with advanced economies blindly repeat the mistakes that kept Argentina poor for so long: state control of the economy, redistributive fiscal policy, protectionism. "I'm often asked in Argentina, 'Why are you eliminating trade restrictions, reducing tariffs on imports, at the same time you see the Congress of the U.S. fighting for protection against Japanese imports?' [But] even though in some Western countries the trend is still to bigger government, if you look at the world as a whole, there is the bigger market economy, the smaller consolidated public sector. The trend is toward a market-oriented economy.

"For fifty years [Argentina] had politicians worried about how to take from John to give to Peter, rather than thinking of the future, of the sons of Peter and John, their educational system and their judicial system, and the security of the families in Argentina," says Cavallo.

If socialists and other advocates of social engineering look at free-market capitalism and see chaos, Cavallo looks at free-market capitalism and sees harmony. Says he: "I see it bringing a better-organized society."

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9ANT5 CP

Israeli stocks were hot last year. This year could bring more of the same, at least for technology exporters.

Investing in Israel

Rick Rosen/SABA

By Matthew Schifrin

THE LATE Robert Maxwell may have overpaid for media properties, but he sure had a hot hand when it came to investing in Israeli technology companies. In 1989 Maxwell invested $39 million in Herzlia-based Scitex Corp. Ltd., a computer imaging systems maker. By the time the publisher was buried on the Mount of Olives in November, Scitex had netted at least a $200 million profit for Maxwell's Mirror Group Plc. after an October stock offering.

Israeli stocks sizzled last year. Shares in the 28 Israel-based companies most widely traded in the U.S. rose by an average of 150% during 1991, partly because they were so heavily discounted in the runup to the Gulf war, and partly thanks to the prospects for Middle East peace. Israel's economy, moreover, is looking healthier. Inflation, for instance, is now running at around 18% a year, down from 330% in the early 1980s. In November it was effectively zero.

What lies ahead for Israeli stocks? A good person to ask is a cigar-toting industrialist named Aharon Dovrat. He immigrated to Israel from Argentina in 1959 and later helped steer Maxwell into his successful Israeli investments. He built Clal (Israel) Ltd., a Tel Aviv-based conglomerate, from revenues of $20 million in 1965 to $1.7 billion today. Dovrat, 60, is now an investment banker. His merchant banking firm of Dovrat, Shrem & Co. recently purchased Budget Rent-A-Car's Israeli franchise and has been working on a half-dozen public stock offerings. Dovrat is selectively bullish. He worries about the strains on the fragile economy caused by surging immigration of Soviet Jews, and advises investors to be cautious of Israeli

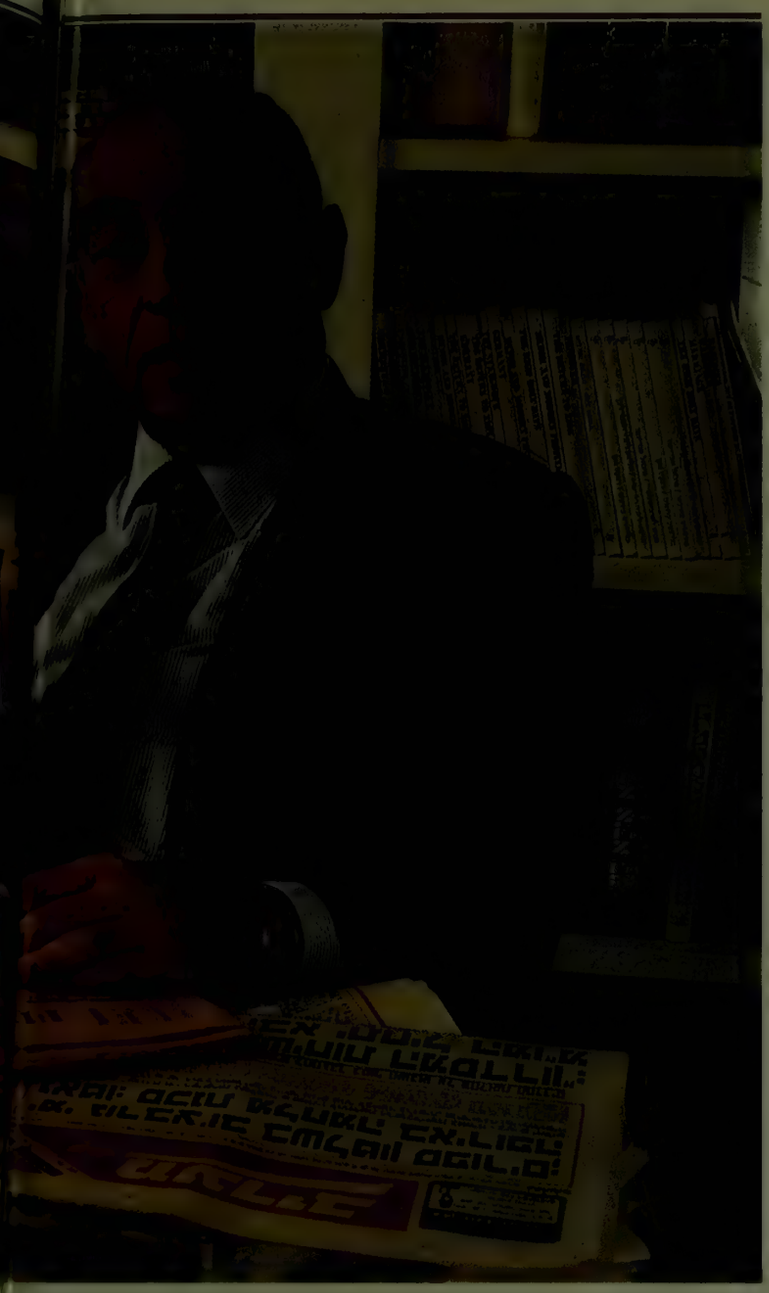
Potential peace dividends

Company/business	Exchange	Market cap ($mil)	Sales latest 12 mos ($mil)	Price: Recent	Price: % change over 12 mos	P/E latest 12 mos	Debt/equity
Scitex Corp/imaging systems	o-t-c	$1,288	$400	34½	128%	13	8%
ECI Telecom/telecommunications systems	o-t-c	600	100	42½	252	30	12
Teva Pharmaceuticals/pharmaceuticals	o-t-c	458	344	16	44	11	51
Elbit Computers Ltd/computer systems	o-t-c	400	399	24⅜	77	16	31
Elscint Ltd/medical diagnostic instruments	NYSE	342	185	4½	100	21	25
PEC Israel Economic Corp/holding company	Amex	243	41	30⅞	129	10	11
Elron Electronic Industries/holding company	o-t-c	242	465	15	140	13	53
Bio-Technology General/biotechnology	o-t-c	178	4	8⅜	540	NA	87
American Israeli Paper Mills/paper products	Amex	154	275	40½	38	13	41
Lannet Data Comm/computer networks	o-t-c	154	23[1]	15¼	17[2]	NA	0

[1]1991 estimate. [2]Public since 10/16/91. NA: Not available.

Sources: Standard & Poor's; Media General; Forbes.

Israeli stocks trading on U.S. exchanges sizzled last year. Still, many are neglected by Wall Street, and some are modestly priced and could make attractive buys.



Israeli financier Aharon Dovrat **Guided Maxwell's hot hand in Israel.**

businesses that depend on the local market. Stocks that fit the bill include property developer Israel Land Development, wood products maker Etz Lavud, American Israeli Paper Mills and leading food and confectionery maker Elite Industries, which is currently involved in a domestic price war. Also to be avoided: Israeli biotech companies that have been run up in the biotech craze on Wall Street.

But Dovrat does see opportunity in technology and software companies that derive most of their income from exports. He singles out four: Scitex Corp., Elbit Computers Ltd., ECI Telecom Ltd. and Lannet Data Communications, which recently went public. Dovrat knows these companies well. He has served on the boards of all but one.

He thinks Scitex still has a lot of growth ahead of it. The $430 million (estimated sales) company makes imaging equipment for the publishing industry, and it is well placed politically: Its operations in Israel are run by Yair Shamir, son of the prime minister. Scitex shares, traded over-the-counter in the U.S., have more than doubled in the last 12 months. Even so, at a recent 34 a share, the virtually debt-free company sells for around 13 times trailing earnings and 11 times 1992 estimates. "If Scitex were based in Boston," says Dovrat, "it would be selling at twice the price."

Another of his favorites, Elbit Computers, has shifted from defense electronics to medical and industrial applications. In 1990 nearly 85% of Elbit's $363 million in sales came from exports, roughly 55% from civil applications. Elbit's stock is up 77% in the last 12 months but still sells at around 16 times last year's earnings.

ECI Telecom makes telephone circuit multiplication equipment, which enables one cable to carry 16 conversations. Its big customers include AT&T, British Telecom and MCI. With help from Dovrat, ECI, too, has been diversifying away from its military applications. Last year it earned nearly $25 million on $110 million in sales. ECI Telecom recently traded at 42 over-the-counter, 24 times 1992 estimated earnings.

A fourth pick, Lannet Data Communications, designs and manufactures "intelligent hubs" and other equipment for local area networks, used to link mainframes and microcomputers. Since 1987 Lannet's sales have climbed from less than $800,000 to about $23 million in 1991. Only 10% of its revenues come from Israel, 60% come from Europe, and around 20% from the U.S., where the company is aggressively trying to expand. Debt-free Lannet should earn about $1 per share this year and recently sold over-the-counter at 15. (Dovrat sits on the board.)

Dovrat also likes Elron Electronic Industries, a holding company that invests solely in technology firms; among its public holdings are Elbit and Elscint. Elron's o-t-c shares have also doubled but still have a below-market multiple of 13 times trailing earnings.

Aside from those listed here, Americans can buy Israeli stocks, denominated in shekels, on the Tel Aviv stock exchange. But, according to Herb Ostroff, publisher of the Tel Aviv-based business weekly *Israel Business Today,* the exchange can be relatively illiquid, most disclosure documents are in Hebrew and virtually no U.S. brokers will handle these transactions.

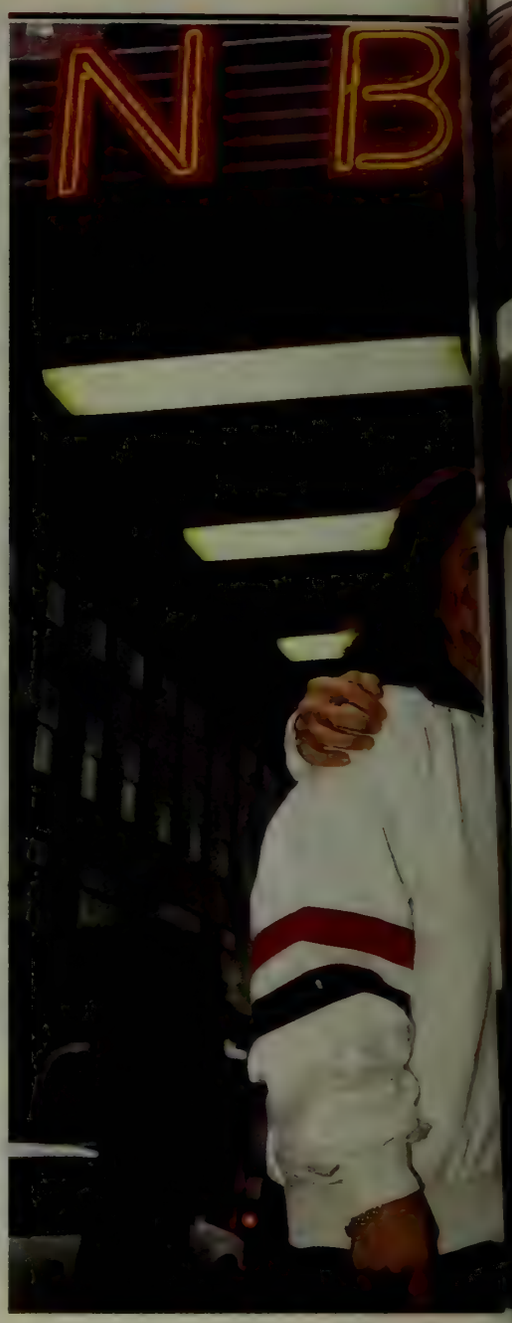
Dovrat is something of a maverick in Israel. He supports land-for-peace deals with the Palestinians and has little but scorn for Israel's socialist traditions. To those who criticize his wealth—he was, at $500,000, including benefits, Israel's highest-paid executive last year—he responds: "In Israel making money is still considered a bad thing."

That's changing, too.

NBC is gambling heavily that it can sell advertising-free coverage of the Barcelona Olympics to millions of cable TV subscribers.

"A giant question mark"

By Peter Newcomb



Claudio Edinger/Gamma-Liaison

IN MOST Olympic Games years, advertisers scramble to book TV time a good year in advance, to avoid getting shut out of the broadcasts. Not this year. There's plenty of high-priced ad time left for the 161 hours of Olympic coverage the NBC network affiliates will begin airing in July. Media buyers are counseling clients to wait for lower prices as the games approach and NBC and its parent, General Electric Co., grow anxious about earning a return on the $401 million NBC paid for rights to broadcast the games.

But will the network get desperate? Maybe not. NBC isn't betting solely on advertising revenues to justify its Olympic investment. In partnership with Chuck Dolan's Cablevision Systems Corp., the network hopes to open a second revenue stream by convincing 3.5 million cable television households to pay as much as $170 each for torch-to-torch, commercial-free coverage on three cable channels. Whereas the broadcast audience—the mass market—would see the highlights of the games' most popular events, the pay-per-view audience would be able to choose from over 1,000 hours of coverage of literally every event, from synchronized swimming to dressage. Although the pay-per-view coverage would carry no commercials, it may include sponsor's names splashed across programming features—a list of former gold medal winners, say, or Olympic records.

What would the cable viewers pay? NBC is offering them three subscription packages. The deluxe "gold" package, for $170, includes complete coverage plus merchandise tie-ins such as a coffee-table book on Olympic history and a collector's pin set. The "silver" package, at $125, keeps the coverage but cuts out the merchandise. And the budget "bronze" package, $95, includes a choice of complete coverage for the first seven days or for the first Sunday and the games' two three-day weekends. None of these prices is cheap. The highest price for a single pay-per-view broadcast to date is $49.95.

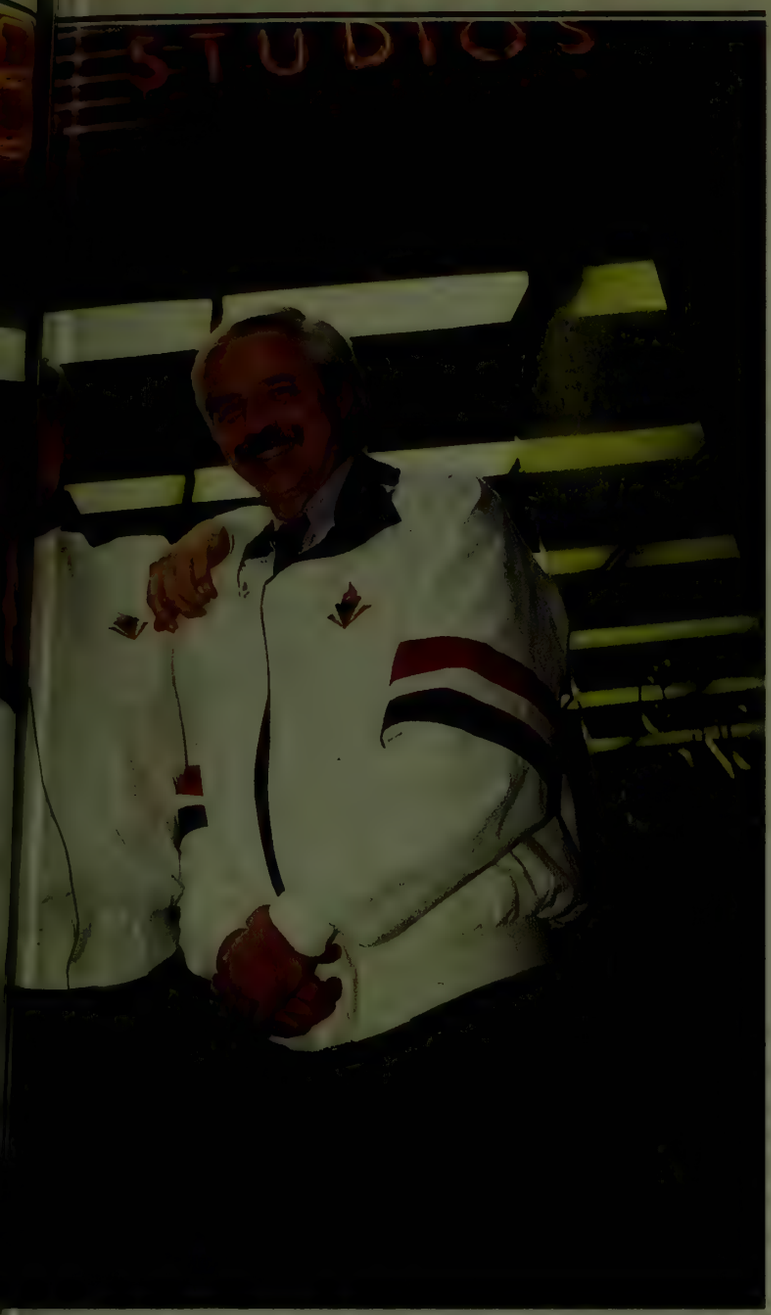
Selling pay-per-view events entails challenges other than finding the right price points. "You never get sold out with pay-per-view events, so we had to find a way to build in some deadlines, some urgency, some call to action," says NBC's Martin Lafferty, vice president in charge of Pay-Per-View Olympics. To accomplish this, NBC has divided the coming six months into promotional periods of four to six weeks each and has devised exclusive come-ons for each period. For Christmas, for example, NBC offered a free warm-up jacket with each gold package subscription. In February new gold subscribers will get a Universal remote-control unit for cable systems.

Promotions aimed at women will run on holidays like Mother's Day, while male sports fans will get pitched during events like the Superbowl and the NCAA basketball finals. Once each promotion runs its course, the specific merchandise deal disappears. Says Lafferty: "By having these expiration dates, it builds in a sense of urgency that simulates the notion of being sold out."

NBC needs some big numbers to make its Olympics pay-per-view concept work. Lafferty hopes to sign up 3.5 million households but says he needs 2.8 million to break even. By contrast, the Holyfield-Foreman prizefight—the current pay-per-view record holder—pulled in 1.5 million viewers.

Lafferty frankly admits he has no idea whether he'll make his pay-per-view targets. "It's a high-stakes poker hand until the very end, which doesn't make any business person comfortable," he says. Agrees Gene DeWitt, president of DeWitt Media, a New York City-based media buying firm: "I think the whole project is a gigantic question mark."

With so much money riding on the outcome, the joint venture has been quietly working for months to tap the cable revenue stream. Over a year ago,



RIGHT:
NBC's $40 million marketing campaign
Finely targeted print ads to attract enthusiasts of niche sports.

LEFT:
Barbara Parsky, Martin Lafferty and Stephen Lake of NBC
Betting on the most expensive pay-per-view event ever offered.

Lafferty's associates, Barbara Parsky and Stephen Lake, deployed five advertising and promotion agencies and a $40 million marketing budget to lay the groundwork for NBC's pay-per-view marketing of the Barcelona Olympics. After NBC aired the 1988 Seoul Olympics, it learned that 13% of the 77.2 million households that tuned in griped about commercial clutter; 10% of the households said they would pay to avoid the ads. Hence the decision to move ahead with pay-per-view.

Now NBC must convince viewers that they absolutely need 1,080 hours of 15 sports, some with as many as 300 events, on three cable channels simultaneously—24 hours a day. Currently, only about 18 million cable households have the technology required to receive pay-per-view programming. By summer, that number will more than double.

NBC is aiming its pay-per-view marketing at two distinct groups: die-hard sports freaks and those who respond to the Olympic ethos of international harmony. To reach the sports fans, the joint venture hired ad agency Della Femina McNamee, Inc., which has been beating the drum successfully for the New York Mets. Della Femina's pitch touts the Barcelona Olympics as the first genuine, unboycotted games in years and zeroes in on the viewer's freedom to choose which events to watch. The tag line: "A whole new way to see the games."

For the audience of torch-lovers, the venture tapped N.W. Ayer, whose credits include the Army's stirring call to "Be all that you can be." Ayer's image for the games: "Catch the fire behind the flame."

So far, NBC has booked only about 50,000 reservations, mostly gold. But the real marketing push is just about to kick into high gear. Much will also hinge on NBC's ability to sign up local cable system operators to allocate three of their channels to the games. "A lot of the cable operators are skeptical," says Sharon Armbrust, senior analyst at media consultant Paul Kagan Associates. "They feel it will be too expensive for them to market it."

One thing is clear: The immediate acceptance of the whole pay-per-view concept hinges on how many cable households sign up for NBC's Olympics programming. If the network comes close to hitting its targets, expect programmers and broadcasters to chase more flashy programming and pass the bill directly to viewers. It is no accident that last month Capital Cities/ABC and Paramount Communications formed a joint venture to pursue pay-per-view projects.

"Everyone else is going to benefit from NBC's gamble," says Stephen Pendergast, a portfolio manager at Smith Barney. "It will either be the beginning of a really expensive bidding war for pay-per-view events. Or it will be the end."

For many business people, this contest will be even more exciting than the sporting events in Barcelona. ■

After years of diversification, Nippon Steel is still chiefly a steel company. But it has learned from its successes as well as its failures.

If at first you don't succeed . . .

By Gale Eisenstodt

THE EXPERTS all said that demand for steel in Japan would shrink from around 100 million tons in the mid-Eighties to some 90 million tons by 1990. Nippon Steel Corp., the world's largest steel producer, planned accordingly. It began to diversify: theme parks, new materials, software, you name it.

AP/Wide World

Nippon Steel's Space World theme park **Attendance is sagging mostly because the park is in remote Kyushu in southern Japan.**

Surprise. The experts were wrong. Thanks to a domestic construction boom and strong demand for cars, Japan's production of crude steel rose from 98 million tons in 1987 to 110 million tons in 1990 and an estimated 109 million tons in 1991. Because costs associated with the steelmaking operations had already been cut, profits from steelmaking rose sharply. In March 1991 Nippon Steel's earnings were $700 million, compared with an $84 million loss in 1987.

And the diversification? The most visible is a theme park called Space World. Nippon originally budgeted the park's costs at $54 million (excluding land, which it owned). But to compete with Tokyo Disneyland, Nippon Steel revised its plans upward, spending $230 million. Partly because it is situated in remote Kyushu, in southern Japan, attendance at Space World has been a disappointment. The project lost $34 million in 1990, and, with attendance down around 30% so far in fiscal 1991, it is expected to lose money again.

The steelmaker hasn't fared well in its wholly owned silicon wafer producing operations. A joint venture with IBM Japan, set up in 1988 to sell systems for IBM's small computers, turned its first small profit only last year, and sales remain far below initial forecasts. Retraining steelworkers to sell computer systems—a necessity under Japan's lifetime employment system—isn't easy. A venture with Sankyo Seiki Manufacturing to produce computer peripherals is having a rough time devising products that can compete with those of Japan's electronics giants.

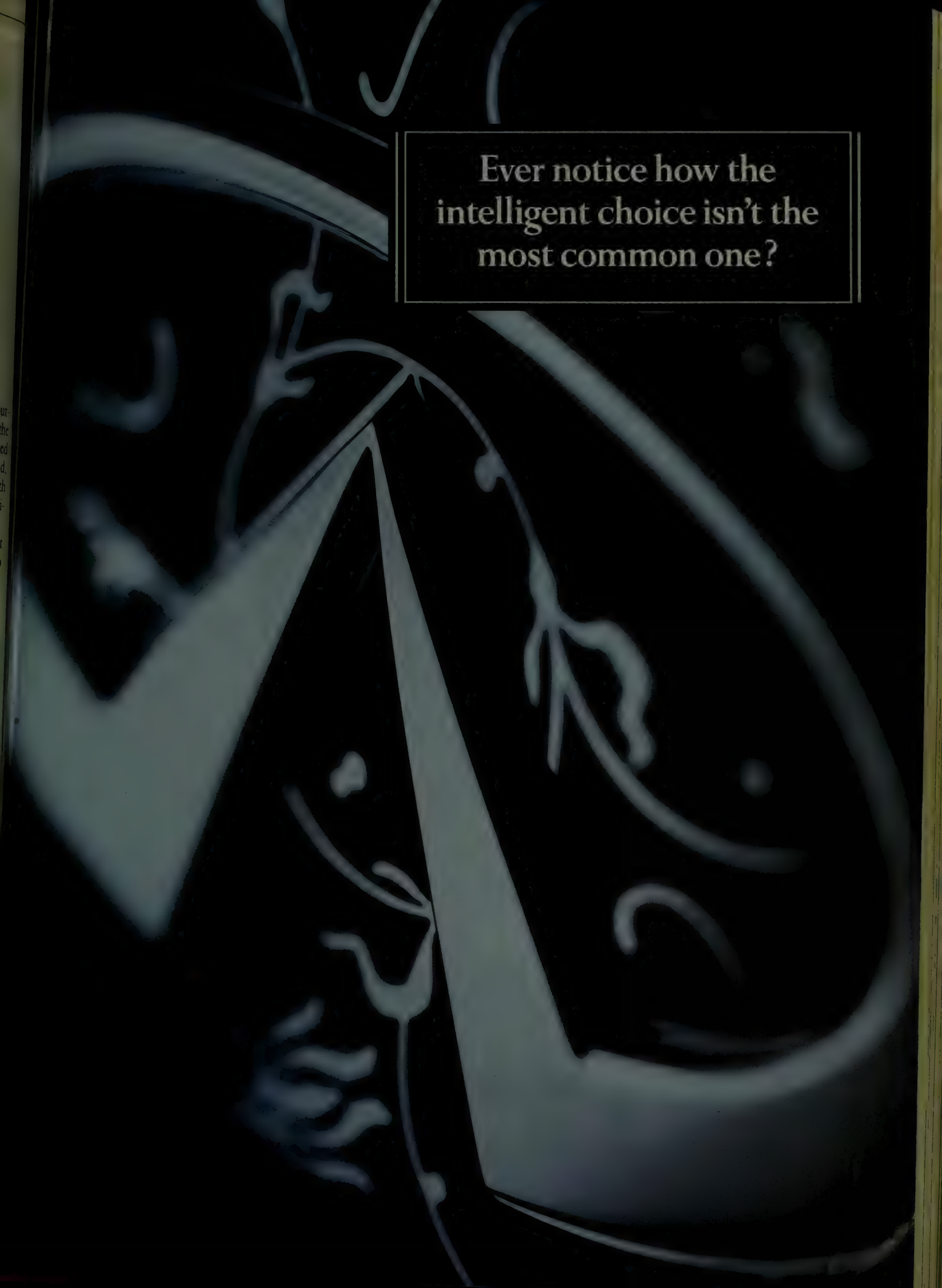
Nippon's boldest move in computers was the April 1991 launch in the U.S. of a notebook computer called Librex. The machine is well designed, but the U.S. market is flooded with similar products and Librex's distribution network is limited.

Significantly, the company did best in diversifying when it stayed close to its basic business. Nippon Steel has been selling the software knowledge and systems technology it has accumulated for its steelmaking operations. Revenues of this subsidiary set up in 1988 have grown to about $452 million, though so far only 40% of the business comes from outside Nippon Steel. To strengthen the software side of its business, Nippon Steel recently announced the formation of a partnership with Oracle Systems of Redwood City, Calif.

Despite this success in software, after more than five years of diversifying, about 80% of Nippon Steel's $25 billion in sales still comes from steelmaking. But this is not to say that the diversifying has been entirely in vain. With Japan's construction boom over for now, steel demand in Japan is falling again, and labor, transportation and capital costs are up.

A question remains: Can a company like Nippon Steel, efficient in what it does but relatively slow-moving, hack it in fast-moving entrepreneurial businesses? Concedes Hidehiko Iwasaki, a managing director at Nippon Steel: "We need to make decisions more quickly now."

Ah, but speeding up the decision-making process in a bureaucracy is easier said than accomplished.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Back from bankruptcy, Lomas Financial Corp. looks like a promising company again.

Reborn

By Howard Rudnitsky

STARTING IN the mid-1960s Jess Hay, now 60, built Lomas Financial Corp. into one of the country's biggest and most profitable mortgage servicing companies. But in the 1980s, like so many others, he got carried away, adding life insurance, retail banking and commercial leasing operations to Lomas' growing real estate development and construction lending divisions. He seemed to think his company could do anything—or almost anything. He was wrong. In the process he pushed Lomas' debt burden to $5.7 billion, with mounting operating losses—and the company into bankruptcy in 1989.

Chastened, Hay told Lomas' bondholders they would get back 100 cents on the dollar. He got Texas-based Lomas placed under the jurisdiction of the bankruptcy court in New York, where Judge Burton Lifland was assigned to Lomas' case. Lifland, a strongly prodebtor judge (FORBES, *Apr. 1, 1991*), gave Hay a free hand to build Lomas' cornerstone mortgage servicing portfolio from $21 billion at the time of the Chapter 11 filing to $29 billion today. That involved freeing $100 million in cash to buy $9 billion (principal amount) in portfolios from the Resolution Trust Corp. Also, Hay was allowed to spend nearly $63 million to develop a state-of-the-art computer system to process mortgages.

Meanwhile, Hay sold off most of the financial services assets he had acquired in the 1980s. This raised $826 million, mostly in cash, and eliminated $3.4 billion worth of debt. In November 1990 Hay was forced to take off several weeks to undergo multiple-bypass heart surgery. But by then he was well on his way to stripping Lomas back down pretty much to what it had been in its better days: a mortgage servicing company that gets up to 0.5% of the value of a mortgage in return for collecting payments and forwarding them to the holder of the mortgage.

Stan Wolenski

Lomas Financial's Jess Hay

A second chance.

Hay isn't quite delivering 100 cents on the dollar to creditors. But, for senior creditors, he came reasonably close: Holders of $1.2 billion of senior debt will get about 80 cents on the dollar, 42% in common stock. Subordinated creditors holding $700 million of notes will get back anywhere from 18 cents to 34 cents on each of their dollars, including 44% in common stock.

Lomas' new common stock, which is now mostly owned by creditors and bondholders, will probably start trading early in the new year at around $12 a share, according to Salomon Brothers bankrupt-securities analyst Max Holmes. That would value the restructured company's equity at $240 million.

But the new stock could prove to be worth considerably more than that. Jess Hay has told creditors that Lomas expects to gross $300 million in revenues and earn over $20 million—$1 a share—in fiscal 1992, ending June 30. By fiscal 1994, earnings are projected at around $1.40 a share. If Hay delivers on that, Lomas shares could go much higher, and the senior bondholders might still get their 100 cents on the dollar.

For one thing, Lomas, stripped down and profitable, could prove an excellent acquisition for another financial services company.

Bargains in bankruptcy

IN AUGUST Lomas Financial's restructuring with creditors was moving along fairly smoothly until Cold Spring Management, Inc. lawyer Mark Feldman filed a lawsuit. A specialist in bankrupt securities, Feldman managed two partnerships that bought $20 million worth (market value) of Lomas' subordinated debt issues after the company declared bankruptcy.

Most parties to the Lomas bankruptcy proceedings thought Feldman's notes were on a par with Lomas' other subordinated debt. But Feldman claimed his paper was senior to the subordinated paper—and a close analysis of the securities showed that Feldman was correct. He used this bargaining chip to win 34 cents on the dollar for his clients' paper; other subordinated paper holders received 18 cents on the dollar. All in all, Feldman's $20 million investment in Lomas' distressed securities will be worth about $35 million—and perhaps significantly more if Lomas' stock rises *(see story)*. A nice gain, but Feldman remembers 1990, when no settlement was in sight and Lomas bonds he had bought for $20 had fallen in value to $12. "Those were Kaopectate days for me," says Feldman.

–H.R.

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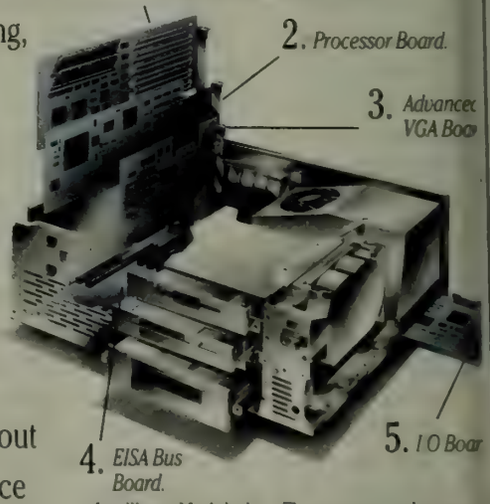

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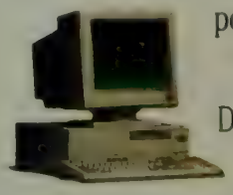

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The supply of M.B.A.s is up, but demand is down, and corporate recruiters say business schools have lost touch with reality. All those new touchy-feely courses may entertain the students, but they don't cut much ice in the job market.

Another boom ends

By Dana Wechsler Linden with Jody Brennan and Randall Lane

Patrick Bennett

Fun and games at Indiana University **Trying to bring new relevance to the M.B.A. experience. But do recruiters care?**

DON SUMMA, Harvard College class of '83, hasn't found his master's in business management a ticket to success. He graduated from Yale's School of Organization & Management last May, after having resigned from a glamorous job as an assistant talent agent with Triad Artists, one of the country's leading talent agencies. Two years and $60,000 worth of school bills later, he is unemployed. For whatever comfort it may bring, Summa is not alone. One in four of the M.B.A.s graduating from Dartmouth's Amos Tuck School of Business Administration last spring did so without having accepted a job offer. The number at the University of California at Los Angeles was about 15%. At the University of Texas at Austin, it was nearly 20%. Among Summa's Yale classmates, one-third did not report job placement upon graduation with the master's in public and private management, Yale's equivalent of the M.B.A.

Certainly the recession deserves some blame for all this. But there's something more fundamental going on here: An M.B.A. degree isn't worth what it used to be. The recession has simply worsened a trend of depreciating respect for the once coveted degree. "People aren't saying, 'Boy, I can't wait until our quarterly numbers pick up so we can hire more M.B.A.s,' " warns Associate Dean James Schmotter of Cornell's Johnson Graduate School of Management—one dean not afraid to be candid.

What's the problem? Start with the oversupply of M.B.A.s. Each year the country's 700-plus business schools churn out 75,000 graduates, up from only 5,000 in the 1960s. "I tell my friends, 'We're the lawyers of the Nineties, there are too many of us,' " says Summa.

At the same time, demand is way off. Many industrial companies, such as IBM, GE and Xerox, have been eliminating layers of middle managers—jobs often held by M.B.A.s. For these firms, recruiting in the 1990s is more focused on technical people, such as engineers or accountants. Investment banks and commercial banks, the leading hirers of M.B.A.s during the 1980s, are going to fewer campuses and making fewer offers. In the past, lacking anything more lucrative, an M.B.A. from a prestigious school could always take a bank job. With banks merging, consolidating and cutting back, it will be years before this employer of last resort is back in the market on any scale.

Consider American Express, which hired fewer than 50 M.B.A.s last year, about half the number it hired three years ago. American Express is increasingly looking at applicants from lower on the educational scale: "Just because you have an M.B.A. doesn't mean you walk on water," says Clarissa Gilliam, an American Express senior staffing specialist. "There are undergraduates who are just

as smart." Cheaper and humbler, too.

Even though business is booming for Merrill Lynch, the big securities firm expects to hire only 75 M.B.A.s this year, about half the number hired in 1987. More and more jobs once designated for M.B.A.s are now going to B.A.s.

"Three years ago M.B.A.s were everything here," says a Wall Street recruiting director who insists on anonymity. "Now we're not sure that what we're getting for the money is much better than hiring a spunky young B.A. and training him."

Like just about everyone in the U.S. these days, companies are shopping smarter. They want more for their money and are less willing to pay up for perceived prestige.

Part of the blame lies with the business schools themselves—even the best of them. Smug and arrogant, they chose increasingly to teach what they wanted, rather than what business needed. "We business schools are going through the agony that organizations go through when they become producer-driven," says Richard West, dean of New York University's Stern School of Business. "To a significant degree, we lost sight of our customers—students and corporations."

It was a story not different from those of many once great U.S. industries that enjoyed tremendous growth after World War II, then became complacent and ingrown. A few decades back M.B.A. factories were few in number. In the late 1950s there were about 125 institutions awarding master's degrees in business in the U.S., but 2 of the 125—Harvard Business School and New York University's Graduate School of Business—accounted for 25% of the degrees.

The few schools and their scant output were not highly regarded. Both the Carnegie and Ford foundations came out in the late 1950s with comprehensive evaluations of management education. The reviews weren't kind. The message from both foundations was essentially the same: The nation's business schools were intellectual wastelands—mere trade schools where second-rate students were taught second-rate curriculums by second-rate faculty.

To improve, the business schools were told, they had to

Value for B-school money

IF THE dimming prospects for fresh graduates of many M.B.A. programs *(see story)* don't scare you away from the degree, what should you look for in a business school? A good education, of course, but also an educational investment that makes economic sense.

What's the point of quitting (or not even starting) a good-paying job and going head-over-heels in debt to acquire a degree whose value is probably falling?

Your best bet is still the name-brand, expensive institutions like Harvard, Stanford and Wharton. But realistically, not everyone can get into these elite schools—or afford the $35,000 a year (tuition plus room and board at Harvard) they cost. So we present this list of ten inexpensive business schools that offer the most value for the money.

Criteria? To make our list, a business school had to charge tuition of no more than $10,000 a year (or $18,000 for one-year M.B.A. programs like the one at the University of Pittsburgh).

The schools also had to have a goodly number of corporate recruiters on campus last year and have had a high percentage of last year's graduates with firm job plans at graduation. The schools' graduates also had to attract good salaries.

Beyond the numbers, we applied some subjective criteria based on talking to M.B.A. recruiters from major public and private U.S. corporations.

While you do not see very many famous names on this list, the caliber of the schools' students is impressive.

Students admitted to the University of California at Los Angeles' John E. Anderson Graduate School of Management, for example, last year scored 640 on the graduate management admissions test, on average—higher than those at all but a handful of other business schools nationwide.

As our rankings show, graduates of these ten schools also do well in the job market.

A few caveats are in order for this and other rankings of business schools. Most of the numbers on which the rankings are based can be problematic in that they are reported by the schools themselves.

That means distortions can occur, intentionally or unintentionally.

School A, for example, may calculate the average starting salary of its graduates earlier in the academic year than does school B.

Those recruiters that make earlier offers—including consulting firms and investment banks—also tend to pay the most. So, all else being equal, school A's students will appear to be better paid than school B's.

Is this or any other list of "the best" business schools definitive? Of course not. But given the combination of student talent, graduates' employment and cost, we think these ten inexpensive schools offer among the best values for the money. –D.W.L.

Forbes honor roll of affordable M.B.A. programs

School	Tuition 1991-92 in state/**out of state**	GMAT[1]	Acceptance rate[2]	Yield[3]	Starting salary[4]	Employment rate[5]	Recruiters[6]
John E. Anderson Graduate School of Management at U Calif, Los Angeles	$ 2,300 **10,000**	640	19%	53%	$54,000	85%	200
Graduate School of Business, University of Texas, Austin	960 **3,790**	631	23	50	44,000	81	300
Kenan-Flagler Business School, University of North Carolina, Chapel Hill	780 **6,640**	620	13	57	51,500	85	155
Jesse H. Jones Graduate School of Administration Rice University, Houston	8,300	622	35	43	46,700	80	55
Indiana University School of Business, Bloomington	4,160 **9,750**	610	34	49	46,400	76	242
College of Business and Management, University of Maryland, College Park	4,290 **7,680**	600	32	57	44,600	83	85
Georgia Institute of Technology, School of Management, Atlanta	2,120 **6,280**	614	36	57	40,600	70	50
Joseph M. Katz Graduate School of Business, University of Pittsburgh	11,220[a] **18,570**[a]	597	44	58	43,500	80	115
Baruch College School of Business and Public Administration, City University of New York	2,600 **5,100**	560	39	63	41,900	93[c]	400
Terry College of Business, University of Georgia, Athens	2,770[a] **7,360**[a] 2,080[b] **5,520**[b]	615	29	53	40,200	72	70

[1] Graduate Management Admission Test average score for all accepted students. [2] Percentage of applicants accepted out of those who applied. [3] Percentage of accepted students who chose to enroll. [4] Average starting salary for students who reported job plans. [5] Percentage of class with firm job plans at graduation. [6] Number of companies that interviewed on campus.
a: One-year program. b: Two-year program. c: Includes employed part-time students.

upgrade their faculties. Research-oriented professors were hired and were encouraged to develop analytic tools and concepts that would raise the level of business scholarship.

Over the next few decades, business schools achieved academic legitimacy. Professors won Nobel Prizes in economics. With that legitimacy came respect. Suddenly companies wanted M.B.A.s and ambitious students wanted to become M.B.A.s. By the late 1980s big consulting firms were offering as much as $100,000 to attract the cream of the M.B.A.s from the cream of the business schools. So what if tuition for a Harvard M.B.A. cost $30,000 and even a bargain-priced Rice degree $14,000? If an M.B.A. was almost equivalent to a down payment on a red Ferrari, who would balk at the price?

The customers came flocking in. In 1962 only 6% of all master's degrees awarded in the U.S. were in business administration. Twenty years later 25% were. By the early Eighties 500 institutions were offering the master's in business education and were turning out upwards of 60,000 sheepskins a year, more than triple the number of master's degrees awarded in engineering and more than double the number awarded in the humanities.

It was good business for the universities. Expanding a business school yields a much better return on investment than expanding a biology department: no new $1 million laboratory required. Classes are big (there are about 80 students in the average first-year classroom at Harvard Business School) and tuitions have risen fast—nearly tripling at Harvard since 1980, to $17,500.

Business schools also typically operate at a profit—or operating surplus, to use gentler education lingo. The University of Chicago's latest figures, for example, show the business school contributing over $9 million—fully one-third of tuition income—to the rest of the university.

By the early 1980s trained faculty had become scarce, with three or four vacant teaching positions for every new Ph.D. Teaching salaries shot up, and in 1989 Wharton snatched young finance and economics star Sanford J. Grossman away from Princeton, reportedly for a nine months' salary of $250,000.

But the comfortable business world that the business schools grew up to serve was changing drastically. The 1980s mergers and acquisitions boom, fueled by easy credit and junk financing, brought a wave of consolidations, leveraged buyouts and cost-cutting—resulting in flatter organizations with less middle management. The globalization of business put a new emphasis on product quality, manufacturing management and leadership. A lean cost structure suddenly counted for more than the prestige items, like the top Harvard M.B.A.s.

Even while their business was booming, business school deans started hearing a growing rumble of discontent among corporate employers. The message was consistent: M.B.A. graduates are great with matrices and decision trees but lack practical skills needed to manage in the real world. They aren't being taught about quality in manufacturing or about managing in global markets. Above all, they're not being taught the leadership skills needed to deal with the more diverse work forces of today's flatter organizations. In other words, the deans were told, the graduates you're turning out don't manage very well.

Some business school deans tried to respond to the criticisms but were held back by their faculties, fat and happy in their flood of students and rising pay and perks.

For more than five years, New York University Dean Richard West proposed a dramatic increase in the amount of class time and the elimination of some long-standing courses. The faculty was hesitant—until NYU got an embarrassingly weak ranking in a magazine poll of business school students and recruiters. Within the next year, the faculty approved the plan West was advocating.

However simplistic and questionable their methodologies, these list-compilers did bring the breath of competition to a complacent business. More than one business school dean told FORBES there was a correlation between his school's ranking in a given year and the length of the list of recruiters coming to campus. In Japan the rankings are now used by corporations to decide what American business schools their employees should attend.

Unable to ignore the impact of these popularity contests, how have business schools responded? Not necessarily in the smartest ways. Four years ago the University of Chicago's business school was ranked an unexpectedly low 11th on one survey—because graduates criticized the school's emphasis on theory at the expense of practical training. A few weeks later Chicago's faculty approved a new, noncredit "leadership program" for first-year students. The communications part of the course has been taught by Chicago's Second City comedy troupe. Students are also taught teamwork—on a retreat with Outward Bound. The students love it. In last year's survey Chicago jumped to 4th place.

Class size	Comments
370	Ivy League quality at cut-rate prices.
532	Among the cheapest of all, and known for turning out good technology managers.
187	Less than half the price of neighbor and rival, Duke.
87	Only private school on our list, subsidized by William Marsh Rice's endowment, now at $1 billion.
312	Innovative program starting this year, based on integrating business theory with real business problems.
175	Solid education, near northeastern recruiters.
85	Good finishing school for engineers, top-notch students.
298	Highly regarded one-year M.B.A.—just one year of lost salary.
497	Dirt-cheap commuter school, strong part-time program.
110	Good one-year program open to undergraduate business degree holders.

Similar touchy-feely courses have sprouted up on business school campuses everywhere. Indiana University puts students through a "Challenge course," including the "Peanut Butter Pit," described as a "hazardous crossing event." Students use ropes and other means to cross a pit of simulated quicksand. At Pepperdine University in Malibu, Calif. students learn ethics through a "federal prison visitation program." According to a press release, this involves "meeting with such high-profile white-collar criminals as Ivan Boesky."

But is all this warm-and-fuzzy P.R. nonsense really what employers were asking the business schools for? Of course not. Listen to Richard Beatty, a human resource consultant writing a book on views of M.B.A.s in the work force: "The new programs are quote, nice, unquote," he explains. "But they're barely scratching the surface. I don't know of anyone dealing with real management training and facilitating skills."

Jonathan Levine

Richard West, dean of NYU's Stern School of Business
"To a significant degree, we lost sight of our customers."

Explains Cornell's James Schmotter: "It's a lot easier to contract with Outward Bound than to fundamentally change the curriculum," he says. "There's nothing wrong with it, and students really like it. So that's what we do, and we get credit for it, but it's troubling." These quick fixes may make the students happy, but they are unlikely to change the sense in business that M.B.A.s aren't necessarily worth more than people with other degrees.

Consider the case of one bright young man, Ashok Samuel, 30. Samuel received a master's degree in computer science from City University of New York five years ago and immediately started saving money for the M.B.A. he'd always planned to get. In the meantime, he started working for a New York City-based software development company. Several promotions later, he now manages a research and development group of 15 people and earns an annual income considerably higher than the $75,000 starting salary earned by even the luckiest Harvard M.B.A.s.

And what about his plans for an M.B.A.? Samuel has decided it's no longer necessary. "What am I going to get from it?" he asks. "My management has never told me I lack the skills of an M.B.A. I can pick up any new theories I need on the job or at training programs."

Jeffrey Van Fossen got a bachelor's in mechanical and aerospace engineering from Princeton in 1987. Three years later he applied to the Massachusetts Institute of Technology for a joint M.B.A. and master's in engineering. Van Fossen's career goal: to make it into top management at a manufacturing company.

Van Fossen wasn't accepted by MIT. Disappointed, he went to work as director of a technology transfer center in his native Midwest. He's in contact with 10 or 15 local manufacturers a week. His career goal hasn't changed. But he's decided it's worth going after the engineering degree and not the M.B.A. "The people most effective in manufacturing don't necessarily have M.B.A.s, but they do have technical understanding," Van Fossen says.

The message is gradually sinking in at the schools themselves. Dean John Rosenblum of the University of Virginia's Darden Graduate School of Business Administration predicts that the M.B.A. credential will become less important and business schools will go through the classic shakeout of a mature industry.

The first to go, probably, will be the "M.B.A. mills," at schools like Pace and Fairleigh Dickinson, that staffed up quickly and are not accredited. The business schools that remain will gravitate toward market niches, producing specialists to meet specific customer needs—say, manufacturing or technical management. Some schools have already begun carving out niches: MIT in real estate and technology, Northwestern in marketing, and Wharton in international management.

Rosenblum also predicts that management education will become more of a collaborative effort with industry. There will be more short nondegree educational programs for managers, designed and delivered by universities and companies working together. The University of Virginia already offers nondegree programs tailored to individual corporations such as Hercules Chemicals and Bacardi. Duke offers similar programs to IBM.

A dean who sees an opportunity in this turmoil is Dan Short. Currently associate dean at the University of Texas at Austin, he will take over as dean of Kansas State University's business school in June. "I'm not going to play the M.B.A. game," says Short, explaining that while other schools concentrate on M.B.A. programs, he'll concentrate on the basic undergraduate program. That will mean the students will have to pay for just four years of instruction, instead of five or six, with huge savings of time and money. Short thinks he can deliver a cost-effective product to industry by teaching students to grapple with real-life problems rather than textbook finance and marketing theories. Breaking down walls between courses, Short would combine these disciplines into one integrated program that more resembles the real world.

"We'll slip in and produce a product of higher value," he says. "A higher-quality student to compete against M.B.A.s at lower cost." Educational purists may gasp at such down-to-earth talk, but they would do better to heed it: The country is getting tired of handing blank checks to our institutions of so-called higher learning.

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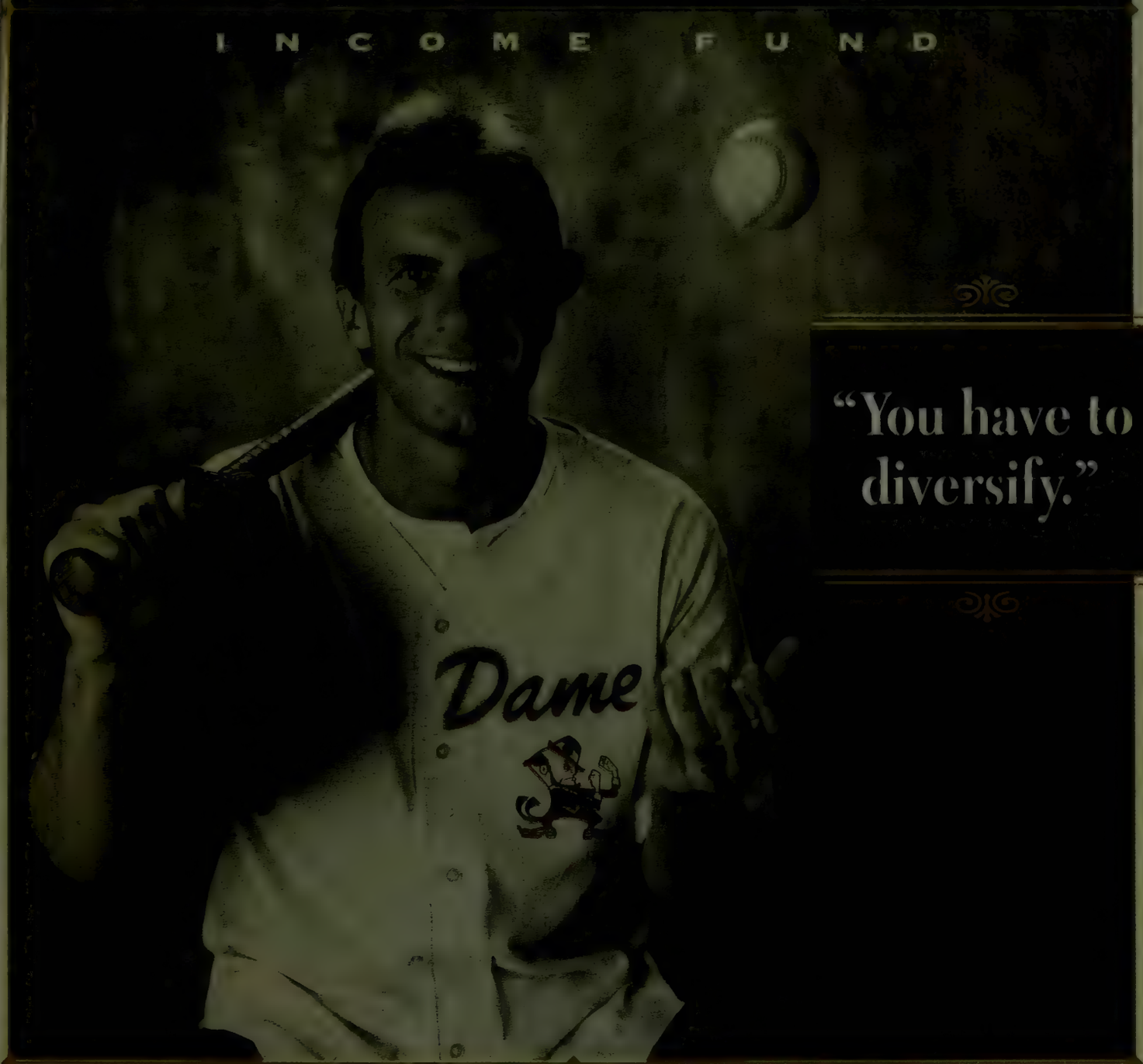

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In videocassette recorders, Sony Corp. suffered a humiliating defeat—but learned a valuable lesson.

Sharing

By Andrew Tanzer

THERE IS no love lost between Japan's two consumer electronics giants, Sony Corp. and Matsushita Electric Industrial Co. In the 1980s Matsushita dealt Sony a humiliating blow by making its VHS format video recorders the world standard, forcing Sony to begin marketing VHS products in 1989 along with its Betamax system.

Bruised, Sony learned a valuable lesson from its defeat: Don't try to hog a technology; you'll gain more by sharing. Because it learned this lesson, Sony is now pummeling Matsushita in the market for the current hot consumer electronics product: palm-size video camcorders. The Sony-backed 8mm format is pitted against the VHS-C format that is backed by Matsushita and its 51%-owned subsidiary, JVC.

Sony is the clear leader. Its 8mm format captured at least 50% of the 10-million-unit world camcorder market in 1991. In gadget-crazy Japan, where new products are typically launched months before they are in overseas markets, 8mm's share is 60%.

When Sony was trying to promote its Betamax video system, it tried to keep the technology proprietary. JVC, by contrast, licensed its VHS technology to many manufacturers. As the VHS format spread, more programming became available for VHS machines and Betamax was doomed.

In camcorders, Sony took an entirely different tack. It made its technology available to all comers. In the early 1980s Sony helped form an international consortium of more than 100 manufacturers to set an 8mm standard. Sony demonstrated its 8mm technology to the group and released specifications. After Sony launched its first single-unit 8mm camera-cum-recorder in 1985, it encouraged potential competitors to bring out 8mm products.

Frederick Charles

At the Wiz in New York

8mm small camcorders are sweeping the market.

As the format caught on, more companies began to produce it. Hitachi Ltd. shifted its focus in camcorders from VHS-C to 8mm in late 1990. Sharp Corp. will launch its first line of 8mm camcorders this February. Canon Inc., the innovative still-camera maker, now makes the lightest-weight 8mm camcorder.

In another example of learning from its Betamax mistakes, Sony sells key camcorder components to competitors, and supplies its own camcorders, as well as 8mm metal recording tape, to big names such as Fuji Photo Film Co. and Kyocera Corp. for resale.

"Selling 8mm products to other companies is important in increasing the penetration and standardization of 8mm," says Hiromasa Otsuka, manager of Sony's consumer video business strategy division. "We learned [from the Beta experience] how to make money."

Matsushita and JVC haven't conceded defeat. Their VHS-C camcorder system, introduced in 1984, is a compact version of VHS, with a shorter tape and smaller cassettes. A major advantage: Unlike 8mm tapes, VHS-C cassettes can be played back with an adapter on a standard VHS recorder, of which there are some 70 million in U.S. households. (By contrast, 8mm tapes are played by plugging the camcorder into a television set.) A major drawback: VHS-C tapes offer just 30 minutes of recording time, to the 8mm format's two hours. Moreover, VHS-C's image is not as sharp as the 8mm image.

Officials of both Matsushita and JVC say they'll stick with VHS. "We have no plans to make 8mm," says Kazuo Kohda, manager of the product planning department of JVC's video products division. "With such a huge base of VHS recorders, we'd be doing a disservice to consumers if we made 8mm."

Sony's 8mm ambitions run deeper than just camcorders. With nearly 2,000 movie titles and other programming now available in 8mm format, Sony is marketing 8mm decks as a second or third video recorder for homes. Price: around $400 and falling. Sony is also pushing its portable Video Walkman, which plays 8mm tape on a color 4-inch LCD screen.

Thanks in part to its stunning success in 8mm camcorders, Sony last year surpassed Matsushita for the first time in sales of audiovisual products. But the race isn't over. Leadership could change again this year, when the two rivals will release competing digital audio recording products. Stay tuned.

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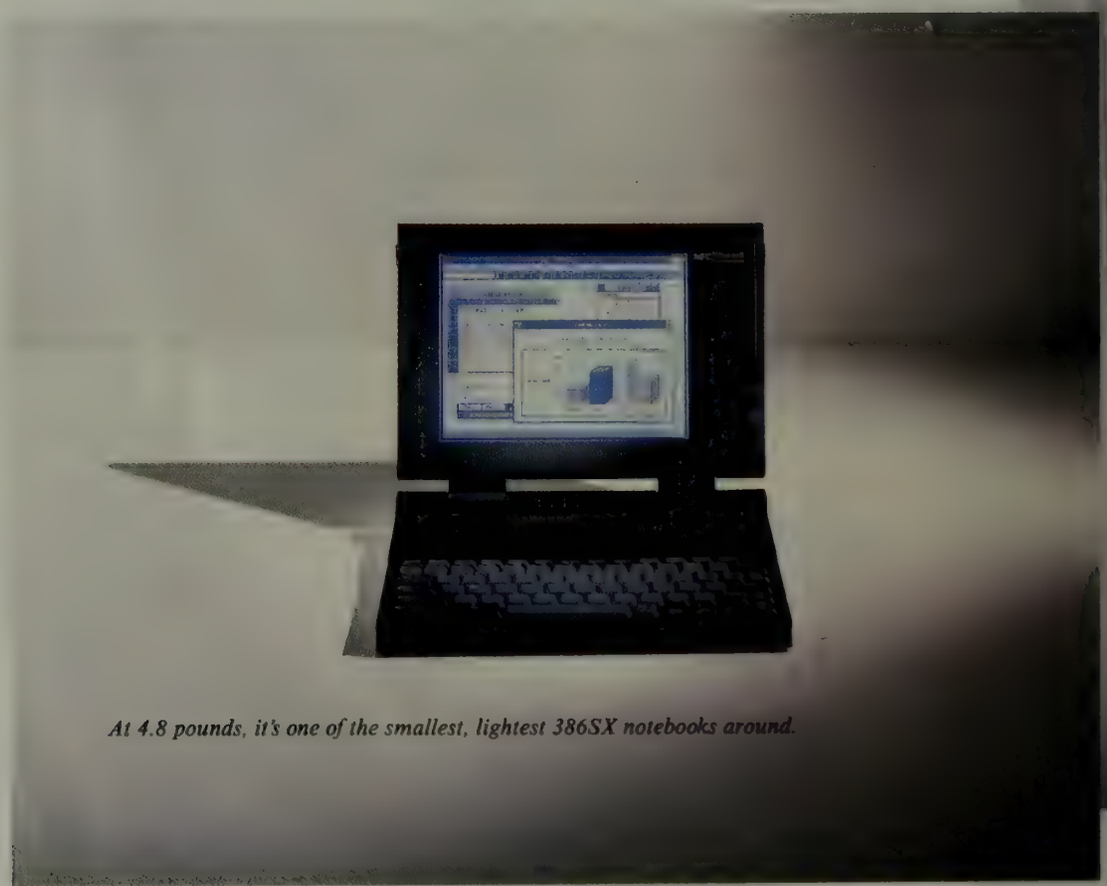

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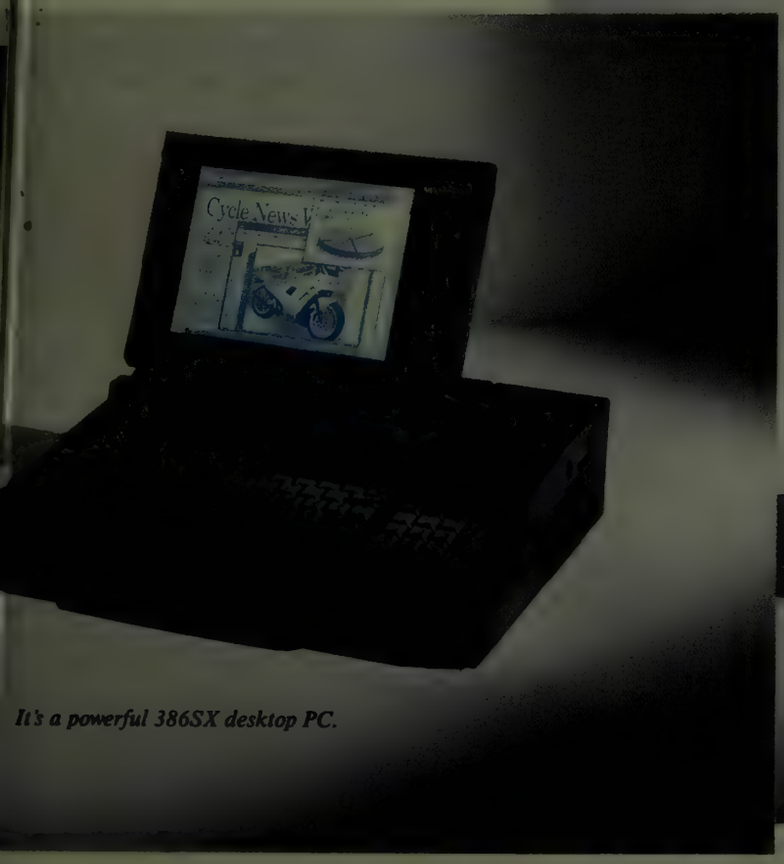

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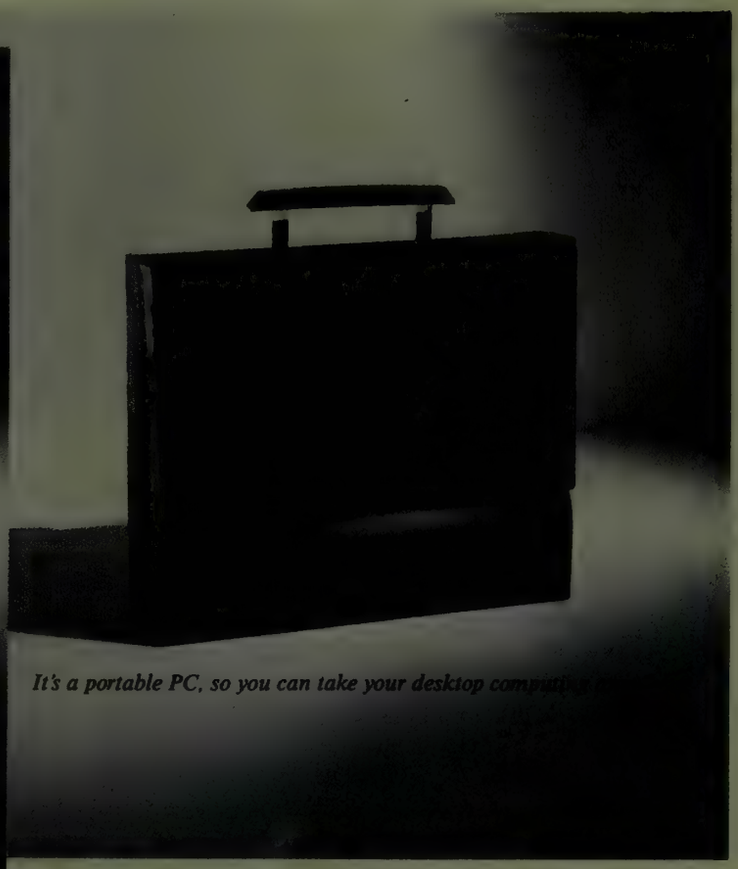

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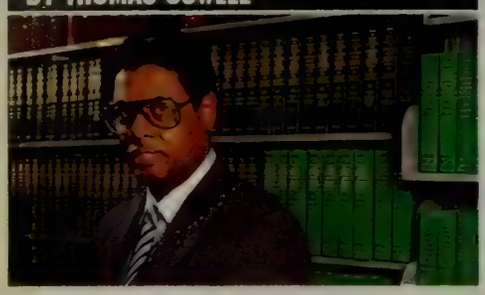
Even Ozzie and Harriet would be excluded from today's "traditional family" statistics once Ricky and David grew up and left home.

The new conformity

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

NO HOLIDAYS are more family-oriented than the Christmas holidays. Yet the family is under siege today as perhaps never before in history.

It is under attack statistically as well as politically. Clever sophisticates are forever citing statistics suggesting that the traditional nuclear family is already an anachronism. Only 26% of households consist of two-parent families and their children, they say.

Superficial plausibility is usually sufficient for political purposes, but what happens if we scrutinize that "26%" statistic more closely?

First of all, it excludes even the most traditional two-parent families after their children have grown up. Ozzie and Harriet would not be counted in these statistics after Ricky and David grew up and left home. In fact, if the entire country consisted of nothing but Ozzie-and-Harriet families, the clever sophisticates could still say that only 33% of households were traditional after Ricky and David began living in their own households.

George Bush and Barbara are not counted as a "traditional family" in the official census statistics, even though they have been married for 45 years and have had children, because those children are no longer living with them. Newlyweds are likewise not counted as a "traditional family" until they begin having children.

The family is also under attack in our public schools. Parental authority is undermined in textbooks aimed at children as early as preschool. If that seems incredible, read *TA for Tots* (for kindergartners to third-graders) or *Changing Bodies, Changing Lives* by Ruth Bell et al. (for high-schoolers).

The theme of all sorts of so-called

"decision-making," "drug-prevention," or "sex-education" programs in the public schools is that the individual child must make his or her own decisions—and must do so independently of the values taught by parents. The very concepts of right and wrong are dismissed at the outset as mere prejudices of parents or "society."

The steady drumbeat of anti-parent themes continues right on through college. Cornell University President John Rhodes urged parents to "stand back, don't push" when the time comes to choose a college. "Stop meddling" was the more blunt advice of an administrator at William & Mary College. An orientation session at Stanford for parents of entering freshmen has been full of advice for them to butt out.

The ostensible reason for all these efforts to get parents out of the picture, or at least moved to its periphery, is to allow the free development of their offspring. But the people most active in promoting this philosophy are very often the same people most active in promoting all sorts of brainwashing programs to impose a new conformity, under such misleading names as "diversity."

Perhaps most dangerous of all, the family is under siege from government. For example, the number of things a child can do behind the parents' back with the aid of government is increasing.

Most have to do with sex and its consequences. Abortion is the only operation that can be performed on a child without parental permission. The distribution of condoms, with the dangerous illusion of security they provide, has become another government-to-child operation, with parents cut out of the decision.

The whole child-abuse industry, and the reckless propaganda surrounding it, is another government operation that not only reaches right into the heart of the family on flimsy pretexts but also expands to include things that no reasonable person would consider abuse. Meanwhile, genuine child abuse is often lost track of in the avalanche of false reports inundating the system under bureaucratic rules and strident propaganda.

Why all these attempts, from so many quarters, to undermine the family, exaggerate its faults and minimize statistically its very existence?

Many of the vital functions which families provide are functions which many wish to see provided by the state. Many of the traditional values which families pass on to the next generation are values rejected by clever sophisticates, who think that their superior wisdom should be replacing that of ordinary people.

Above all, families are the biggest single obstacle to the visions of the anointed who take upon themselves the task of reconstructing society. Families care for their own, not for abstract principles of "equality."

The opposition of the political left to the family goes far back in history. The first draft of *The Communist Manifesto* made the destruction of the family an explicit part of its agenda. However, Marx was savvy enough to remove this excess candor by Engels.

Families are one of those independent centers of power which are intolerable to those who want to impose their ideological Utopias from the top down. It is logically a prime target for unremitting erosion and undermining by those who dare not attack it openly. ■

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What statute of limitations?

By James Lyons

TIME LIMITS on filing suit are a common feature of the law. They are known as statutes of limitations, and their purpose is to keep courts from hearing stale cases.

Common sense on its face, but what happens when a legitimate claim arises after the time limit has expired? If a recent ruling by the U.S. Court of Appeals for the Ninth Circuit is any guide, the clock can tick far beyond the statutory period.

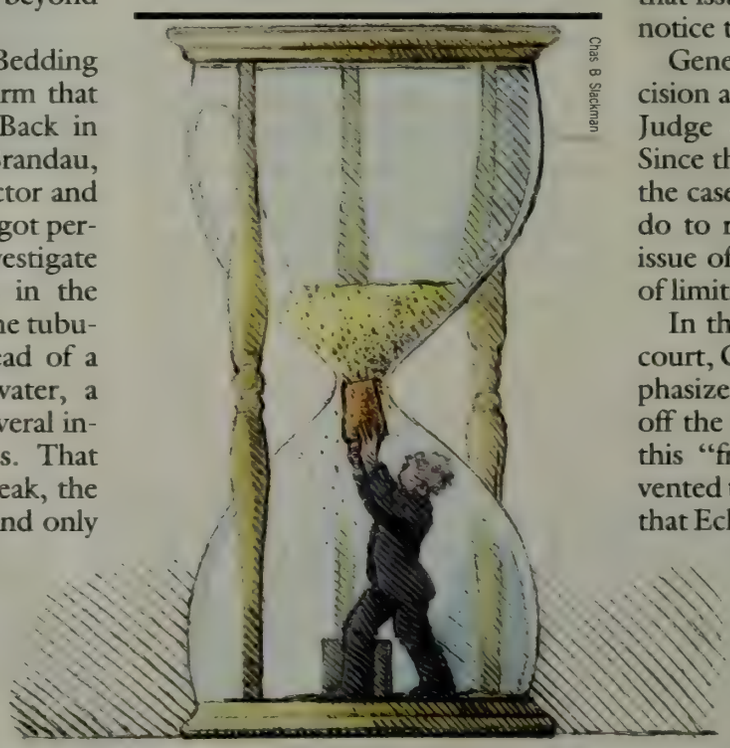
The case involves General Bedding Corp., a Kansas City, Mo. firm that used to sell air mattresses. Back in January 1978 Frederick Brandau, then a General Bedding director and vice president for marketing, got permission from his bosses to investigate the uses of polyvinyl tubes in the construction of waterbeds. The tubular design made sense. Instead of a single bladder filled with water, a waterbed would consist of several independent water-filled tubes. That way, if a waterbed sprang a leak, the leakage could be contained and only one part of the mattress would be damaged.

Brandau worked on the idea with Angel Echevarria, whose company was a General Bedding supplier. But eventually, says General Bedding, Brandau reported that using tubes was not commercially feasible.

General Bedding now contends that Brandau's discouragement was actually a ruse. In fact, the company argues, Brandau struck a secret deal with Echevarria in which Echevarria would patent the design and the two would split the profits. General Bedding ceased operating in mid-1978; Echevarria received a patent on the design in 1980, and started selling waterbeds with tubes. Brandau's name didn't appear on the patent documents.

Seven years passed. In 1987 Echevarria was suing a competitor for patent infringement on the tubular waterbed concept. Part of the competitor's defense: Echevarria's patent was invalid because he had failed to list Brandau as a co-inventor.

When the competitor's lawyers contacted a General Bedding officer to ask about Brandau, General Bedding says it learned for the first time that Echevarria had patented the tubular design—and that Brandau and Echevarria had secretly agreed to share the profits.



Chas B Slackman

So General Bedding sued Brandau and Echevarria in 1988, alleging misappropriation of the design; fraud; unfair competition; and conspiracy to breach fiduciary obligations.

There was one apparent hitch. Under the laws of California, where the case was heard, there's a three-year time limit on the violations alleged by General Bedding against Brandau and Echevarria. The defendants therefore argued that General Bedding's suit was time-barred.

U.S. District Judge Alicemarie Stotler agreed with the defendants. In granting a motion for summary judgment by Echevarria and Brandau, she found that the three-year clock began running when Echevarria got his patent in 1980. Citing a 1940 U.S. Supreme Court ruling, Stotler noted that issuance of a patent "constitutes notice to the world of its existence."

General Bedding appealed the decision and the Ninth Circuit reversed Judge Stotler, reinstating the suit. Since the district court had dismissed the case, all the Ninth Circuit had to do to revive it was find a "genuine issue of material fact" on the statute of limitations question.

In their briefs before the appellate court, General Bedding's lawyers emphasized that Brandau's name was left off the patent. To General Bedding, this "fraudulent concealment" prevented them from learning until 1987 that Echevarria had misappropriated a design that was theirs.

Lawyers for Echevarria countered that when General Bedding authorized Brandau to work with Echevarria, that was sufficient for the company to suspect Brandau's involvement when Echevarria got his 1980 patent.

But the Ninth Circuit didn't buy that logic. "It is not clear that a reasonable person would investigate merely because this patent was issued," the judges wrote.

Having escaped the ticking clock, General Bedding will now have a chance to explain to a jury why it didn't sue earlier.

General Bedding could, of course, still lose. But the broader lesson here is that legal deadlines aren't necessarily a simple matter of looking at the calendar. ■

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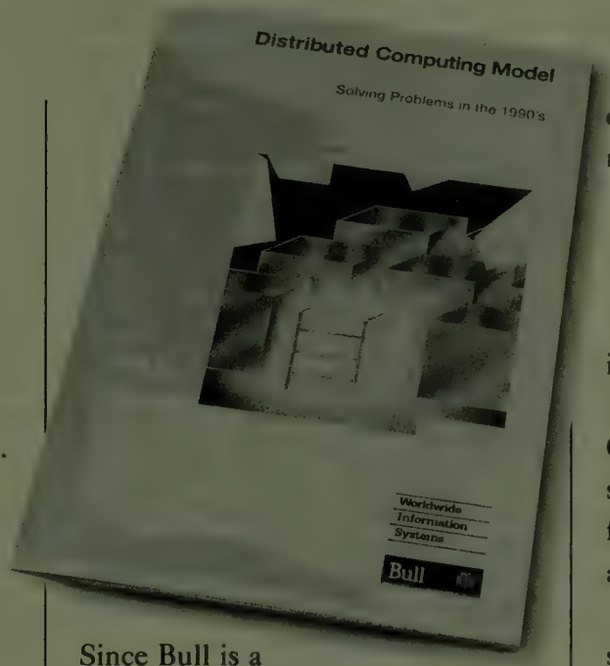

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Gordon Segal was helping his wife wash the dishes when he got an idea for a retailing concept that has grown into the Crate & Barrel chain.

"Stanley, this is what I want to do"

By Christopher Palmeri

WHILE MOST retailers would just as soon forget the recently completed Christmas season, Gordon Segal is closing the books on another good year. Segal's privately held Crate & Barrel Inc., the Northbrook, Ill.-based home furnishings chain (expected 1991 revenues, $170 million, from 36 outlets and a catalog operation) should show an 8% gain on same-store sales for the year. Profits will be up even more.

Segal, 53, is a retailer who has a clear vision of who his customers are—women in their 30s and newlyweds, as well as older couples furnishing a second home. To these upwardly mobile customers, Crate & Barrel markets a carefully selected, modestly priced and brilliantly displayed assortment of home furnishings. Punch bowls, for example. Crate stocks one punch bowl style, prices it at $53.95 and displays it by the dozen, with fancy lighting. "We call it the supermarket technique," says Segal, pointing to stacks of gold-trimmed goblets at $8.95. 'You want to pick them up and say, 'I'll take four.' "

The clincher is price. A tasteful five-piece tableware setting at Crate & Barrel costs anywhere from $8.95 to $49.95, easily half of what department stores will charge. Stemware is priced from $2.95 to $7.95.

The son of a family-restaurant owner, Segal got the idea for what became the Crate & Barrel chain in 1962, when he himself was a newlywed. Fresh out of Northwestern University and working as a real estate agent, he was helping his wife, Carole, with the dishes one night when he began contemplating one of their plates. It was a German import, purchased on a trip to New York City. "I said to myself, 'There must be other people in Chicago with good taste and no money,' " Segal remembers.

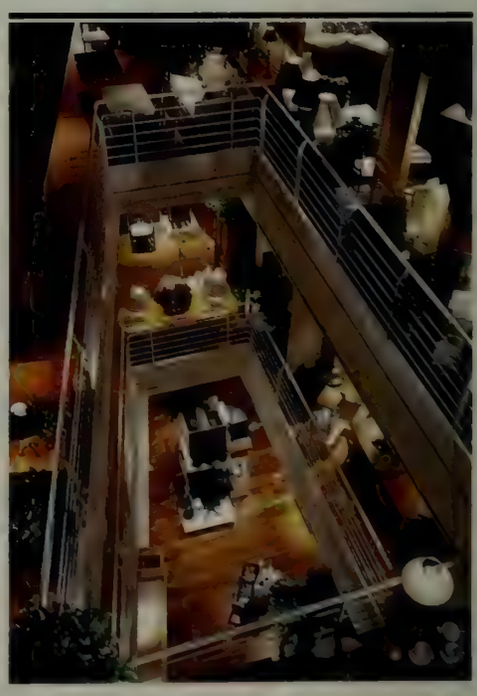
Segal began writing to European housewares manufacturers, negotiating shipments directly to Chicago to avoid markups by importers/wholesalers. With $12,000 in savings and a $5,000 loan from his father, Segal and his wife opened their first 1,600-square-foot store in a former elevator factory in a gentrifying Chicago neighborhood called Old Town. With no money to buy fixtures, Segal displayed his merchandise—plates, cookware and glassware—on turned-over packing crates and barrels: hence the company's name. "We even forgot to buy a cash register," Segal recalls.

Segal used his cash flow to bootstrap a second store, then a third, then a fourth. He situated his stores mostly

Kevin O. Mooney

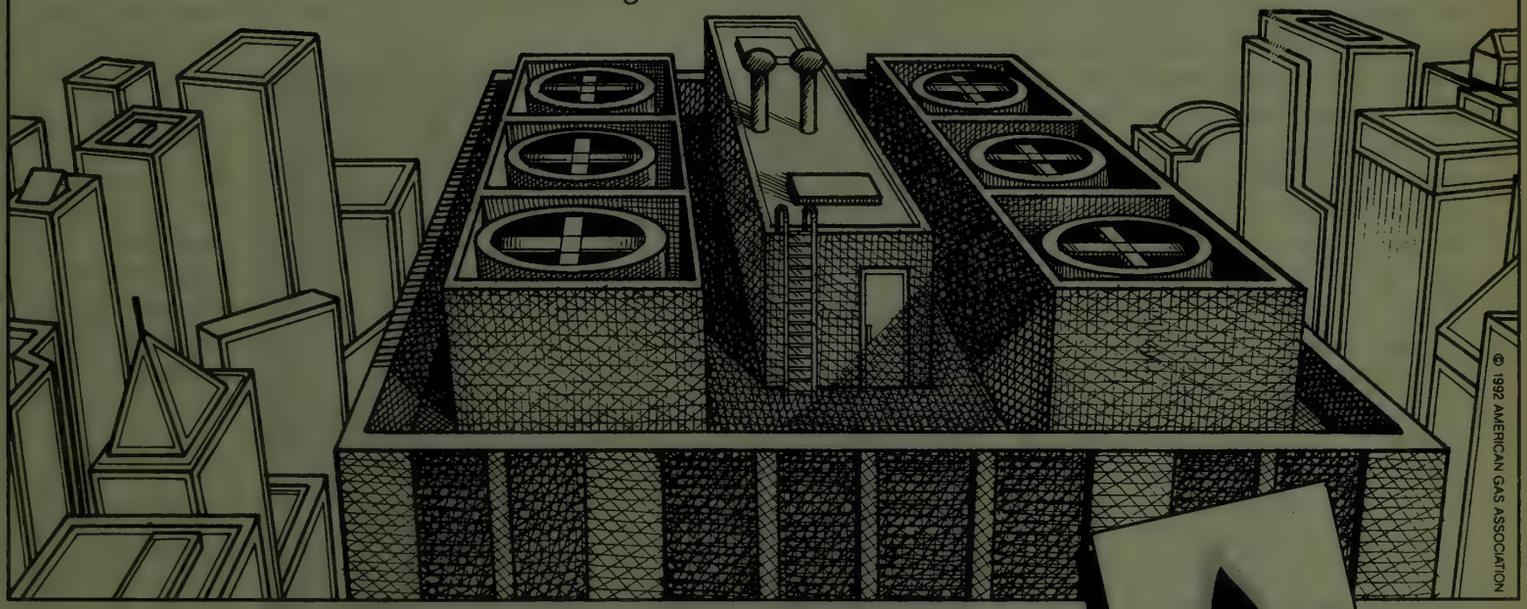
LEFT: Crate & Barrel Chairman Gordon Segal **"I said to myself, 'There must be other people in Chicago with good taste and no money.' "**

RIGHT: Flagship store on Chicago's Michigan Avenue **A week before Christmas, customers were lined up to get in.**



The good news is that the use of chlorofluorocarbons (CFCs)—the refrigerants that have been affecting our ozone layer—has been banned. The not-so-good news is that we have to wait for the year 2000 for the ban to take effect. Fortunately, a lot of people aren't waiting. They realize the damage that's already been done. They realize that the ozone layer in our upper atmosphere that protects us from ultraviolet radiation is increasingly being damaged by CFCs. And they realize that it's got to stop...now! So more and more people with air conditioned offices, hotels, hospitals, supermarkets and other commercial buildings are switching from electrical cooling systems to new natural gas absorption cooling systems that use salt and water instead of polluting CFCs. They're benefiting from reduced air conditioning costs, and we're all benefiting from a safer environment.

It's time we cleared the air about air conditioning.



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in upmarket malls in cities like Boston, San Francisco, Dallas and Washington, D.C.

In 1981 he ventured cautiously into furniture retailing when he converted one of Crate & Barrel's smaller Boston locations into a furniture store. Rather than push hard into a business he didn't know much about, Segal used that store to experiment with different styles of furniture and to build relationships with suppliers. It wasn't until 1989 that he opened a second furniture store, an expansion of an existing Crate & Barrel. Today he has five furniture locations and has become something of a trendsetter.

When the furniture industry gathered in High Point, N.C. this summer for its annual show, people spoke of "the Crate look." That means nothing too contemporary or too colonial. A little Shaker influence in the kitchen, perhaps, and a bit of a country look in sofas, tables and armchairs for the living room.

Furniture now accounts for 20% of Crate & Barrel's revenues and is solidly profitable, says Segal. Still, taking his time, Segal says he doesn't plan to expand his furniture outlets in 1992. "We can wait a year and see what happens," he says. He does, however, plan to add six more Crate & Barrel stores this year—after opening four new stores in 1991—including one each in Palm Beach Gardens and Boca Raton, the company's first entry into the Florida market.

Segal and a few senior executives own all of the company's stock. Industry experts estimate the company's pretax profits run about 6% of sales, on the low side for a specialty retailer because Segal works on slim markups. Still, were he to sell the company, Segal could probably get around $100 million for it. But despite the constant wooing from investment bankers, Segal says he has no plans to sell out or go public.

Stanley Marcus, former chairman of Neiman Marcus Group, says he offered to buy Segal out for a handsome sum ten years ago. "I told him this would be his chance to do anything he wanted to do—teach business, sail around the world, whatever," recalls Marcus. "But he said, 'Stanley, *this* is what I want to do.' " And the business shows it. ■

Not long ago it looked as if Kirschner Medical Corp. was headed for the grave, but a businessman/physician is now steering it toward the recovery room.

The bone doctor's plan

By Jason Zweig

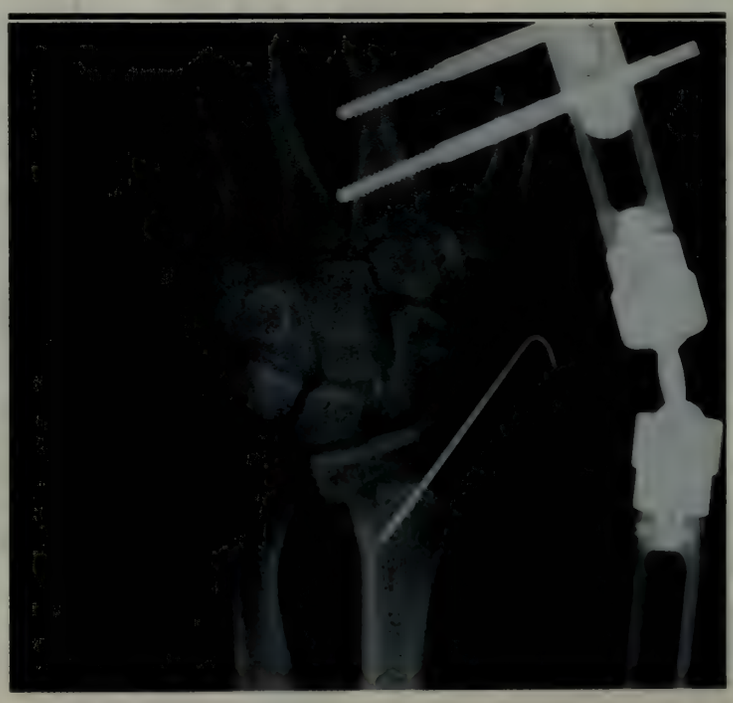
LAST APRIL I fell off a ladder and badly shattered my left wrist. Rebuilding my wrist during a one-hour operation, surgeon Keith Raskin reattached parts of a bone in my forearm with something called a Kirschner wire—an ultrathin, stainless steel shaft that has been around for more than 50 years, costs around $25 and is "the gold standard of treatment in hand surgery," says Raskin.

Pleased with the medical results, I decided to look into the company behind the Kirschner wire. Sad to report, the company, Kirschner Medical Corp., nearly expired in 1990. On a happier note, new management has made great strides in turning Kirschner's fortunes around.

Founded in 1935 and based in the Baltimore suburb of Timonium, Md., $69 million (expected 1991 sales) Kirschner was for many years a staid little company that specialized in making orthopedic devices. It was acquired by Hazleton Laboratories in 1970 and spun off to Hazleton shareholders in 1986. Bruce Hegstad, a vice president of Hazleton, took over as Kirschner's chief executive.

In his zeal to boost revenues from $6 million to $100 million by 1991, Hegstad took on about $50 million in debt to buy up five companies in the medical equipment field, including Minnesota Mining & Manufacturing's U.S. orthopedic division and a manufacturer of surgical lighting.

Hegstad overreached. Two years ago FORBES asked whether Kirschner was using questionable accounting techniques to mask surplus inventory and fudge sales records (FORBES, *Nov. 13, 1989*). Its books for 1989 report-



A Kirschner wire (center) holds together the author's shattered wrist **Shattered companies, like shattered bones, can be repaired.**

Manuelo Paganelli/Woodfin Camp

Kirschner Chief Executive C. Scott Harrison

Can he cure the ailments inflicted on Kirschner by its past management?

ed nearly $14 million in losses and charges against earnings. The company denies there was any accounting impropriety.

In 1990 Kirschner lost another $6 million, on revenues of $63 million, as Hegstad tried to unload Kirschner's inventory of obsolete artificial hips in the Soviet Union and Eastern Europe. Kirschner's treacherous balance sheet caused auditors to warn in its 1990 annual report that the firm might not survive as a going concern without additional cash.

Then, another blow: Last November losses caused primarily by weak sales from Kirschner's Spanish subsidiary virtually wiped out the company's third-quarter profits. Kirschner's o-t-c-traded shares crumpled 27%—to 13¾—on the news. At its peak in 1988 the stock traded at 28¾. Two class-action suits and one suit alleging securities fraud are pending against Kirschner, and over 10% of the company's 2.5 million shares have been sold short.

It's enough to make my wrist start aching again.

But shattered companies, like shattered bones, can be repaired. A year ago C. Scott Harrison, a member of Kirschner's board and a practicing orthopedist since graduating from the University of Pittsburgh Medical School in 1963, reluctantly gave up his practice and replaced Hegstad as Kirschner's chief executive. Harrison, 54, is no stranger to business. He earned some $10 million from a small investment, in the late Seventies, in a hospital management startup known as Rehab Hospital Services Corp. Rehab was sold to National Medical Enterprises for $120 million in 1985.

Last October Harrison managed to refinance Kirschner's bank debt, keeping the company out of receivership, though the draconian terms of the loan still allow little margin for error. He also recently sold Kirschner's veterinary products division for about $4 million. His overall mission: to reshape Kirschner into a purely orthopedic, high-technology medical company.

"We really are an orthopedists' orthopedic company," argues Harrison, whose office is strewn with copies of *The Journal of Bone and Joint Surgery*. He owns just under 5% of Kirschner's stock.

Harrison's strategy for survival against larger competitors like Biomet, Inc., Stryker Corp., Bristol-Myers Squibb Co. and Pfizer Inc. is to turn Kirschner's small size and agility into an advantage. "What I bring to this company," he says, "is the perspective of someone who uses the products and keeps asking, 'Why don't they try this instead?' " Each week, Harrison says, he fields several telephone calls from orthopedic surgeons who tell him, doctor-to-doctor, exactly what they need in a new product or which changes they would like to see in existing ones.

Harrison's direct pipeline to the orthopedic devices market has already begun to pay off. Revenues for the first nine months of 1991 climbed 10%, while operating earnings (before the third-quarter loss at the Spanish subsidiary) jumped 40%, to $7.2 million, over the same period in 1990. Lawrence Marsh, a Wheat First Securities analyst who knows Kirschner well, thinks the company could earn $1.20 a share in 1992.

Kirschner still labors under $47 million in debt, balanced against just $12 million in equity. To pay off some of it, Harrison hopes to take advantage of the still hot market for medical stocks by raising $5 million to $10 million in a private or secondary public offering of common stock. If he can produce good fourth-quarter earnings, he might pull it off.

Whether Harrison can cure the ailments inflicted upon Kirschner by its past management is still an open question. But without him the chances are the company, like the Kirschner wire the surgeon pulled out of my wrist last May, would be long gone. ■

The simplest way to test the thesis that the middle class declined in the 1980s is to check what happened to median income.

Middle-class "meltdown"?

BY MICHAEL NOVAK

Michael Novak holds the George Frederick Jewett chair in religion and public policy at the American Enterprise Institute in Washington, D.C. His book *The Spirit of Democratic Capitalism* has been widely translated around the world.

LIBERAL MOVIE PRODUCER Oliver Stone has played loose with truth in his new movie *JFK*, and that has many other liberals hopping mad. It is good to see honest liberals weeding out dishonesty. The bad news is that people like Stone have been bending the truth for partisan purposes for years; telling us, e.g., that Chinese peasants were happy, that the Soviet economy was "the future that worked," and that Love Canal and Times Beach, Mo. were irredeemably toxic. All these turned out to be lies.

So what is today's most persistent bending of the truth for partisan purposes? Consider the headline that appeared prominently in the nation's capital last month: "America's Middle-Class Meltdown." The story's lead was a perfect example of reality-bending: "America's vast middle class, the undervalued force that has stabilized and moderated American society and politics, is shrinking right before the eyes of economists."

This assertion is absurd on its face. It is doubly absurd because, according to the Census Bureau, real incomes of every class of Americans went up during the 1980s—despite the devastation all classes suffered under Carter from the inflation that flamed up like burning gas wells and took from 1979 to 1982 to quench.

To test the thesis that the middle class is declining, check what happened to median income in the 1980s. Recall your statistics: Half of all households receive more than the median income, half receive less. If the income of a majority falls, the median income will fall. If more people are moving up than down, the median will rise.

What happened to median income in the 1980s? As Reagan took over in 1981, the median income for Ameri-

WHO'S MADE THE TOP 10 IN EQUITY RESEARCH FOR 20 YEARS?

can households was $26,251, as measured by the Census Bureau in 1989 inflation-adjusted dollars. By the same measure, the median income in 1989 was $2,655 higher, or $28,906. This is unequivocal evidence that a strong upward wind was blowing all American households into higher income territory during 1981-89. Just how strong that wind was can be glimpsed by comparing it with the gain in median income during 1971-79: a much weaker gain of $1,609.

Fabian Linden of the Conference Board, who tracks the fate of the middle class closely, points out that today's journalists have learned one great lesson: Reporting bad news (especially about Reagan) gets attention. Tell the good news about the 1980s, liberal elites don't listen. Tell the bad news, you get headlines, TV raves, op ed commentary and political speeches by the opposition.

Richard Morin of the *Washington Post*, for example, got past his editors with the report mentioned above, including this gem from Professor Timothy Smeeding of Syracuse University: "For those in the bottom half of the income distribution, the 1980s were one long recession." Whence came, then, the massive majorities of Reagan and Bush, including lower-income working families?

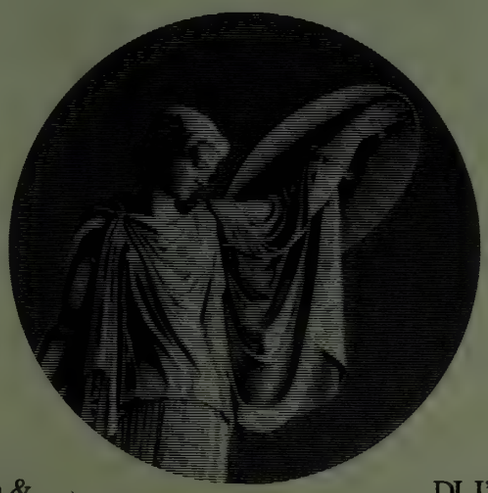
Professor Smeeding's study, which occasioned the Morin story, gives evidence quite contrary to the hysterical headlines it provoked. Both the numbers given and the charts presented in the Smeeding paper show that most of the families within his artificially conceived definition of "middle class" moved upward in the income distribution, not down.

Smeeding arbitrarily limits the middle class to households with annual income between $18,000 and $55,000 (in 1987 dollars). But even households earning $80,000 these days feel middle class. Many university professors like Smeeding and journalists like Morin, if their wives work, earn more than $80,000 annually but do not call themselves "rich."

Since 1970 the middle class has expanded upward in a very rapid fashion. Can you remember when, in 1970, only 20% of households had an annual income above $14,688 ($46,484 in 1990 dollars)? Or 1980, when the top 20% began at $31,480 ($49,990 in 1990 dollars)? By 1989 this figure had reached $56,610 (1990 dollars). This indicates a significant upward push by the middle class. In fact, by 1989 only 5% of American households had an income above $91,750. Below that is a very large middle class, indeed.

Moreover, families did better than households. Each of the four lower fifths showed higher income in 1988 than in 1980. The top limit of the lowest fifth jumped (in constant 1988 dollars) from $14,767 to $15,102; of the second-lowest, from $24,966 to $26,182; of the third, from $35,361 to $38,500; and of the fourth, from $49,580 to $55,906. These pocketbook gains help to explain the Reagan and Bush election landslides.

But that was then and this is now. The Bush team has abandoned the good lessons of the 1980s and resurrected old-line GOP economics: make-it-hurt budget mania, higher taxes, more regulation. They stopped economic growth and produced a tragedy that didn't have to happen, and the middle class is now hurting. Bush should get another team. The middle class will insist on it. ■



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PROJECT $ FINANCE

Infrastructure Entrepreneurs

By William G. Reinhardt

Governments around the world are turning to the private sector for help in developing critical infrastructure assets to support economic growth.

Throughout Europe, Asia, the Far East, South America and in growth-oriented regions of the U.S., public officials are trying to foster new private investment opportunities for energy and power projects, roads, mass transit, ports, airports, railroads, water supply and environmental facilities.

Industrial and commercial privatization of government monopolies in Latin America has contributed to strong growth in those countries' economies. Economic development experts around the world now are drawing on private investment capital for ambitious new infrastructure projects, aiming to produce the same efficiency gains in public services.

The most successful U.S. government program in this area is the independent power business. Private investment incentives enacted by Congress in 1978 have produced thousands of small and medium-sized cogeneration, hydroelectric and waste-to-energy projects, all producing electricity for sale by entrepreneurial developers to utilities. Banking sources estimate that as much as $6 billion of power and energy projects were lined up for financing in the U.S. at the end of 1991.

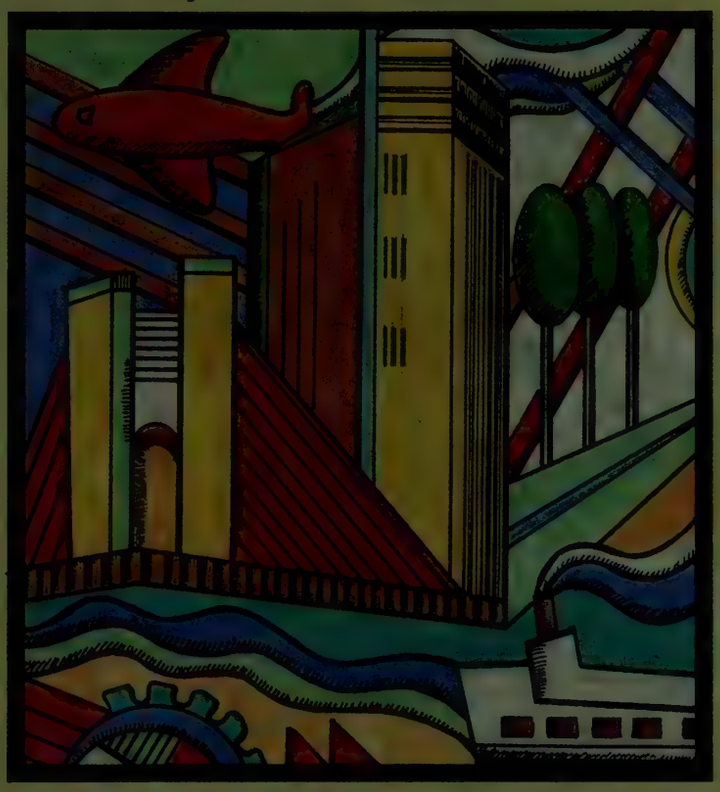

Illustration: Kari Ann Pagnano

Project Finance Experts See a Bright Future in Public Works

Most of the project finance opportunities in the other potentially huge market – transportation – have been in the Far East, Australia and Europe. Now the Bush Administration is moving aggressively to attract private investment in U.S. transportation. The surface transportation act signed by the president in late 1991 provides many of the same incentives that fostered the phenomenal growth of the private power industry during the past 10 years.

Key Industry Players

Among the players in the infrastructure project finance market are some of the top firms in their fields: insurance and surety companies such as Willis Corroon Construction Industries Division in Nashville and CIGNA Bond Services of Philadelphia; project investors GE Capital Corp. of Stamford, Conn.; and Peterson Consulting Limited Partnership, international project economics/construction claims experts with offices in London, New York and 19 other U.S. cities.

All have had a role in the independent power industry's growth. Now they are seeking to translate that experience into foreign markets and new types of facilities.

The public policy goal in all cases is to centralize the management and control of complex infrastructure projects in the hands of private sector experts who are directly at risk for the quality and timely delivery of the design, construction and profitable operation of their products.

"Entrepreneurs have arrived on the scene, replacing their public predecessors, with the freedom, and indeed a mandate, not only to determine how costs will be financed and ultimately recovered, but also to make sure projects are feasible, built on schedule and within budget," says David Yurkerwich, executive vice president of Peterson Consulting.

Peterson Consulting, formed in 1980, helps owners and contractors assess and monitor project feasibility as well as negotiate changes and claims. Lessons learned in dealing with disputes have prepared the firm's professional staff of 450 construction, engineering, accounting, auditing and financial experts to help clients avoid cost overruns and achieve their economic objectives.

Its clients have included financial institutions such as Fuji Bank, utilities, contrac-

David Yurkerwich with clients Michael Lorusso and Shuichiro Nemoto.

Photo: Courtesy Peterson Consulting

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tors and public agencies responsible for building and operating all types of power, rail, highway, airport, manufacturing, medical, educational and commercial facilities.

Long-Term Profits

Long-term investment opportunities in the infrastructure market can be very attractive. The first Bosphorus Bridge in Turkey paid for itself in three years. The first crossing of Hong Kong Harbor between Victoria and Kowloon has generated a 1,000% return since 1972. These are typical of the deals drawing interest from international financial institutions, commercial banks, insurers and long-term investors.

Only the strongest project financings will be put together easily or soon in the current banking and economic environment, however. Unlike oil field development or cogeneration deals, most infrastructure project financings involve local currency transactions, unpredictable commercial risks, the potential for political interference with cash flows as well as other uncertainties that make them difficult to package successfully. To reduce those risks, most of the time these financings involve various forms and degrees of government support, making the projects subject to regulatory oversight.

Thus, public-private partnerships. This term refers to a subset of privatization usually achieved through granting long-term concessions to project-specific operating companies that finance, build, operate and sometimes own facilities for a number of years. When the debt service and profit are paid, ownership of the project is transferred to the host government.

CIGNA's View on Surety

One constraint in this emerging market, says Brian E. Downey, vice president of CIGNA Bond Services, is the worldwide shortage of reinsurance capacity for assuming contractor completion risks on large infrastructure projects. By necessity, a few large turnkey projects awarded to financially strong contractors in the U.S. have gone ahead without full performance bonds.

One possible solution for bonds needed in the U.S., says Downey, is to expand the available surety market by increasing the number of U.S. sureties willing to participate on these large projects, particularly when the contractor is from overseas. For bonds needed abroad, possible participation by both banks and insurance companies may alleviate much of this capacity crunch.

INSURER WILLIS CORROON ADDS ITS RISK EXPERTISE

An interview with Leonard Bullock, President of Willis Corroon, Construction Industry Division, North America

▼▼▼

Why is an insurance and surety brokerage interested in project finance?
Project finance is mainly about understanding and allocating risk. We deal with risk and how it can be avoided or contained all the time. Our products help the construction and financial industries protect their companies from certain risks and catastrophic losses.

How is Willis Corroon involved in project finance?
We are the largest construction broker in the world. We've been involved in all phases and all types of infrastructure projects. We were recently selected as the broker on the world's largest new infrastructure project, Hong Kong's new airport. Domestically, we are on the board of the Privatization Council, which is very active in promoting public-private infrastructure development.

What's your role?
We prefer to be involved at the initial financial feasibility stage, when the all-important risk analysis work is done. We can provide advice on how insurance or surety products can be used to reduce or eliminate risks. We can also advise on which risk contingencies can be quantified and for how much.

Why is Willis Corroon so enthused about infrastructure project finance?
- It's cost-effective, and it speeds the project development process.
- It brings private-sector financial expertise into the infrastructure field and reduces reliance on government funding.
- It minimizes regulatory interference and maximizes regulatory compliance.
- Risk minimization and/or avoidance are virtually the same for domestic and foreign projects.

GE Looks Abroad

GE Capital Corp., one of the country's most sophisticated long-term investors, sees tremendous opportunities in international power project financing. That's where the firm can leverage its U.S. experience most effectively, according to Charles R. Frank, vice president. GE Capital set a record in 1991, closing 22 independent power, industrial and natural gas transactions worth $1.4 billion. With $75 billion in assets and $1 billion in profits from financial services in 1990, GE Capital is in a strong position to deploy its diverse financial tools internationally. These include subordinated debt, preferred stock, lease equity, partnership equity and loans.

Frank says GE Capital is taking a more cautious approach on other infrastructure investments. Project finance only works well when both the economics and politics of a project make sense. "Contractual obligations or political commitments alone cannot save an investment if the contracting parties become unhappy because their project is fundamentally uneconomic," Frank says.

The World Bank and other international lending agencies are mobilizing to support a few key projects by providing political risk insurance and other sovereign guarantees.

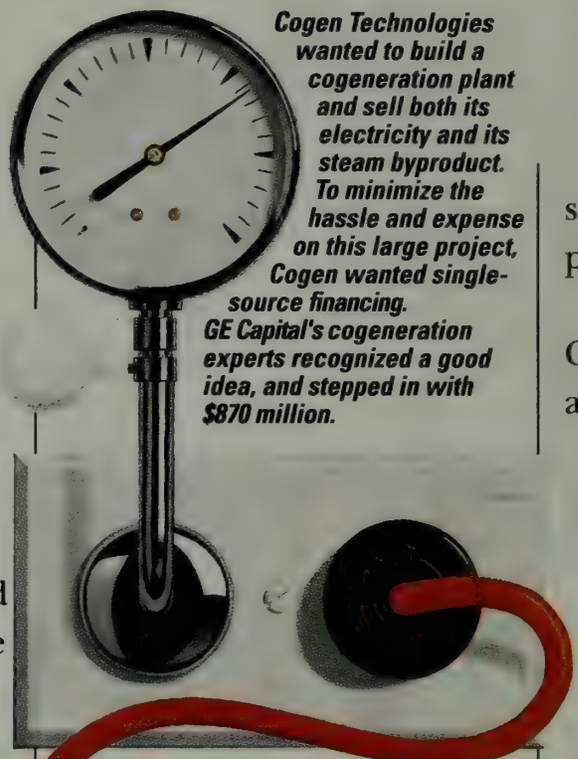
Project finance works in the infrastructure market. However, it can be difficult because it butts up against a brick wall of beliefs among some old-line government bureaucrats about the relationship between the public and private sectors. Government power comes through its control of public assets. Public-private partnerships require both sides to negotiate new ways to share control.

Critically needed infrastructure projects are being privately developed all over the world. The goal is to inject market forces into the selection, delivery, management and operation of infrastructure projects. Ultimately, that will mean greater efficiency in delivering the basic public services that foster long-term economic development.◆

Photo: Courtesy Willis Corroon

RELIABILITY:

One of the ways GE Capital brings good things to life.



Cogen Technologies wanted to build a cogeneration plant and sell both its electricity and its steam byproduct. To minimize the hassle and expense on this large project, Cogen wanted single-source financing. GE Capital's cogeneration experts recognized a good idea, and stepped in with $870 million.

If you're seeking financing these days, you want a partner with strength and stability as well as an intimate understanding of your needs.

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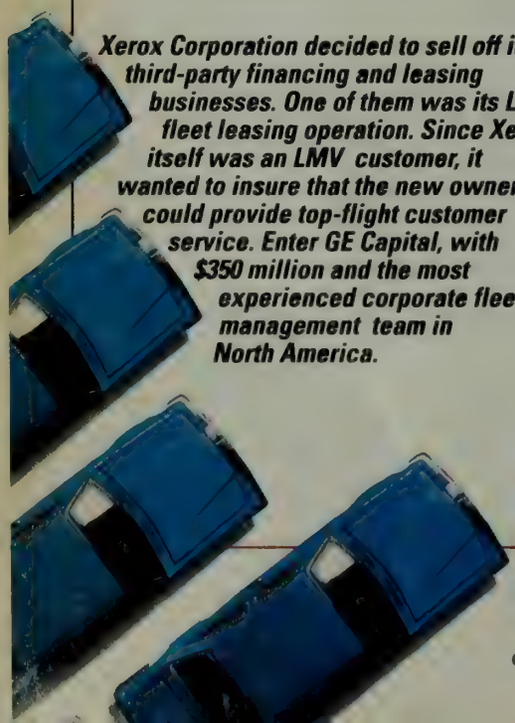
Our success has also helped us attract a corps of talented people with specialized experience in the businesses on which we focus. People with the expertise to weigh critical variables and custom-tailor a program to your needs. People with the creativity and initiative to solve even the toughest problems.

Reliability. Experience. Creativity. These qualities and a can-do attitude have helped GE Capital bring financial solutions to life for nearly 60 years. Give us a call at 1-800-243-2222 to find out how we can help you.

Macy's, one of the world's premier department stores, wanted to sell its private label credit card operation. But it wanted a buyer that would continue Macy's high level of customer service. Macy's choice: sell its $1.4 billion portfolio to Monogram Bank U.S.A., a GE Capital subsidiary. GE Capital services over 65 million private label credit card holders worldwide.

Xerox Corporation decided to sell off its third-party financing and leasing businesses. One of them was its LMV fleet leasing operation. Since Xerox itself was an LMV customer, it wanted to insure that the new owners could provide top-flight customer service. Enter GE Capital, with $350 million and the most experienced corporate fleet management team in North America.



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Retailer Financial Services • TIP • Transportation and Industrial Funding • Vendor Financial Services

Since it shrank its common capitalization sharply to fight a takeover, Unocal seems to have lost the spark that once made it one of the most venturesome companies in the oil business.

Playing it safe

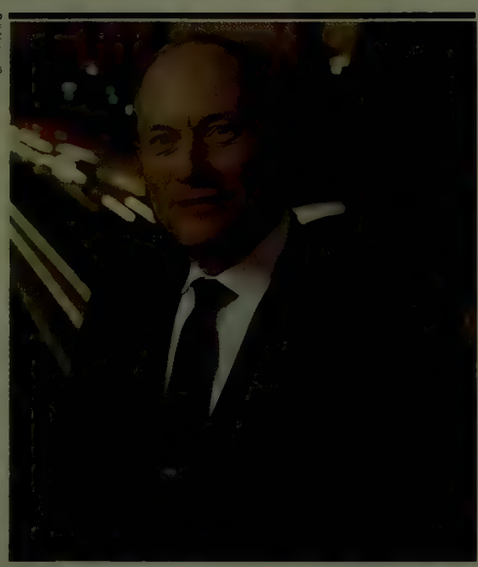
By Thomas Bancroft

FOLLOWING A high-profile predecessor is never easy. Ask Richard J. Stegemeier, 63, who succeeded feisty Fred Hartley as chief executive of Los Angeles-based Unocal Corp. in 1988. Hartley routinely bashed shareholders (calling them "peons") and marched to his own drummer, no matter what the critics said. In the end, however, Hartley's critics prevailed. After Unocal did a financial restructuring to beat off a takeover attempt, Hartley was forced into retirement at the age of 71. He died two years later.

Hartley's former right-hand man, Richard Stegemeier so far has seemed as mild as Hartley was acerbic and considerably less an activist than Hartley in running the $10.3 billion (estimated 1991 sales) oil and gas giant. Latest 12-month profit margins were running at 1.2%, less than half the industry median (FORBES, *Jan. 6*), and sales growth has averaged only 2.6% for the past five years.

Some big shareholders are getting impatient. "Stegemeier's recent moves are encouraging, but change has been slow," says David Zimmerman, the energy analyst of Boston-based Loomis, Sayles & Co.

Stegemeier gets blamed for moving slowly in cutting the crushing $4.4 billion debt load that Unocal incurred in buying in a third of the company's common shares to fight off takeover artist Boone Pickens. Unocal's debt is still a profit-hobbling 63% of capital, the highest ratio in the industry. In the first nine months of last year interest payments ate up 22% of cash flow, compared with 16% at rival Arco. During the last four years Unocal's return on equity has averaged 11%, compared with an industry average of over 13%.



Bill Nation/Sygma

Unocal's Richard Stegemeier
Is he moving too slowly?

Is Stegemeier intentionally keeping the company's debt load high as a takeover defense? He says he's not, pointing out that long-term debt has actually been reduced by $1.5 billion over the last five years. True enough, but about $1 billion of that reduction came on Hartley's watch, between 1986 and 1988.

Meanwhile, Unocal has seen its West Coast retail market share contract by almost 20% since 1988 as consumers have opted for cheaper gas sold by low-cost producers like Arco. Relying largely on costly Alaskan crude, Unocal caters to higher-end customers—the carriage trade, as the industry calls it—with full-service stations and higher-priced gasolines.

Stegemeier has started to put in more self-serve pumps and has pulled out of unprofitable regions like the Pacific Northwest. Last year he spent a reported $350 million to buy three major facilities from Shell Oil's Los Angeles refinery operations. This will allow Unocal to process California crude more efficiently and lessen dependence on Alaskan oil.

These moves may yet pay off. But refining and marketing earnings for the first nine months of last year were a meager $12 million, compared with $75 million a year before. And Unocal had to take a $41 million aftertax writeoff last year for a new hydrotreater it had planned to build in Los Angeles. Why? Stegemeier scrapped the project when he decided to buy the Shell units.

Another drain has been Unocal's Southeast marketing operations, which Stegemeier finally put on the block in February. Two years ago Stegemeier suspended production at Unocal's aging, inefficient Beaumont, Tex. refinery, which supplied the Southeast. But after that, Unocal had to supply customers in Georgia, Alabama and the rest of the Deep South by buying product on the open market. The question is: Why did Stegemeier continue operating in the Southeast for so long when he no longer had low-priced production to sell there?

Caution has dictated Stegemeier's handling of other problems as well. In 1988, for instance, he took a $214 million aftertax writedown on Unocal's moneylosing shale oil project in Parachute Creek, Colo. But he didn't close it down until more than two years later.

And though the troubled Molycorp minerals business lost money in 1990, and probably 1991 as well, Stegemeier put it up for sale only last April. He has yet to find a buyer.

Unocal's stock has been going nowhere, trading recently at 22 a share, a 70% discount to its theoretical breakup value. Chevron and Mobil, by comparison, both trade at 40% discounts. This, once again, makes Unocal vulnerable to takeover.

A geologist whose 40 years with Unocal have been spent mostly on the exploration and production side, Stegemeier is a highly intelligent man. He realizes that the skills Unocal needs today are not necessarily the skills he learned under Fred Hartley in the past. But the question is: Does he have the talents for cost-cutting and financial maneuvering that are called for in Unocal's position today?

The Japanese failed to win more than a small piece of the U.S. personal computer business. They just didn't move fast enough.

The invasion that failed

By Julie Pitta

"WE'VE NEVER been able to break into that top tier," admits Richard Miller, marketing vice president of NEC Technologies Inc., a U.S. subsidiary of Japanese computer giant NEC Corp. That's a remarkable admission, considering the money that Miller's Japanese bosses have spent over the last ten years to lure U.S. consumers to NEC's personal computers. NEC spends about $15 million a year to advertise its PCs in the U.S., for instance. The results have been less than heartening. NEC sold about 260,000 personal computers in the U.S. last year. That's less than a fifth as many machines as were sold by either IBM or Apple Computer.

Although NEC today owns 60% of the Japanese PC market, it has a meager 2½% of the U.S. market, according to market researcher Infocorp. "They were the IBM of Japan, and they thought that in two years they'd be number two here," says Avery More, chief executive of CompuCom Systems, a $457 million computer dealer based in Dallas. "That aspiration has crashed against the wall of reality."

NEC's compatriots have not fared any better. Together, Japanese brands account for only 11% of the PCs sold in the U.S. Hitachi America stopped selling its portable PCs to rethink its efforts. Sony has opted to make notebook-size computers for Apple rather than sell them under the Sony label in the U.S. Toshiba has scrapped its poorly received desktop models, although it continues to sell lots of portables.

Epson America hit it big with printers in the early 1980s, but its subsequent move into personal computers has been a disappointment, and it recently stopped selling laptop models and will instead concentrate on notebooks. "In notebooks, we have a lot of proprietary technology—especially in batteries, disk drives and liquid crystal displays—that should give us an edge," says Peter Bergman, director of product management for Epson America.

Computer dealer in Philadelphia
U.S. dominance of PC software has helped domestic hardware makers edge out the Japanese.

Stephen Sykes/Matrix

What a comedown. After using its manufacturing prowess to corner the market for memory chips in the early 1980s, the conventional wisdom had it, the Japanese would leverage their advantage in components to beat the U.S. in personal computers. Besides memory chips, they also monopolized screen technology and were important suppliers of disk drives. PCs would go the way of VCRs and become Japanese products.

Why didn't it happen? "There's a difference between building a high-quality product and marketing it," explains Epson's Bergman. "Some of the Japanese have had a hard time adapting to market changes." To date, Epson America has sold only about a million personal computers.

Safi Qureshey, cofounder and president of American PC manufacturer AST Research, explains the Japanese failure in these terms: "Product definition is just as crucial as having the key components. You have to know how to package your components in a viable product."

The U.S. still controls critical pieces of technology, the most important being the Intel microprocessors and Microsoft's MS-DOS operating system. "I don't think anyone appreciated how fast Intel was going to throw new processors into the hopper," says NEC's Miller. "You put out a product, and in six to nine months it has to be replaced. It's hard for a company of any size to keep up."

NEC made some mistakes from the beginning. The first was to think that it could sell its proprietary Japanese computers when almost all buyers in the U.S. wanted machines compatible with IBM's personal computers. "They thought IBM should be NEC-compatible," remembers Miller.

With the UltraLite, NEC was the first company on the market (in 1986) with a notebook-size computer. That 4-pound product, which ran MS-DOS, looked like a winner. But by the time NEC could make enough of them, several months after introducing the UltraLite at a trade show, Compaq had started shipping its notebook. The Compaq machine had a floppy disk drive, while NEC's UltraLite used semiconductor memory cards with only half the storage capacity of Compaq's machine. "By the time we had it shipping, Compaq had a better widget," Miller recalls. After the UltraLite debacle, NEC lost any remaining momentum when memory chips became scarce. "It was ironic. NEC is the largest semiconductor manufacturer in the world, but we couldn't get enough memory chips because NEC Japan had a customer base to worry about."

The Japanese did account for about one-third of the 940,000 notebooks sold last year, according to Infocorp. But now, complains Michael Winkler, vice president and a general manager of Toshiba America Information Systems, "the Taiwanese are flooding the market. They're unloading at whatever price they can get." U.S. companies like Dell buy machines in Taiwan and sell them under their own brand names in the U.S. With a glut of notebooks on the market, the pricing war isn't likely to abate anytime soon.

The Japanese aren't going to disappear from the U.S. personal computer market, but neither are they going to make the sort of quick conquest they made in VCRs.

Andy Freeberg

An Apple Computer assembly line **Apple sold just over 1.3 million Macintoshes in the U.S. last year—that's more than all the Japanese PCs combined.**

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Pitney Bowes has captured a lucrative corner of the huge fax market by selling direct to corporations.

Room at the top

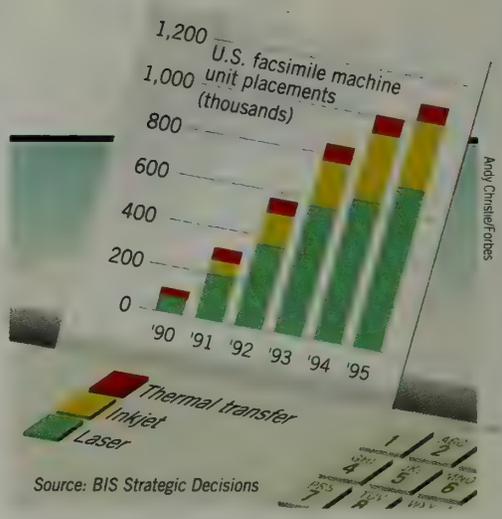
By Graham Button

SANTA FE RAILWAY Co., the Schaumburg, Ill.-based freight line, wants to keep its customers informed about the status of their shipments, but it doesn't want to gobble up a lot of manpower answering phones. Its solution comes from Pitney Bowes Inc., the Stamford, Conn.-based supplier of mail-room equipment. The solution is a kind of facsimile machine quite unlike the $600 devices you see in the windows of electronics shops. These machines can cost up to $5,000 and be equipped with enough storage for 1,200 pages of text and 1,000 telephone numbers.

Santa Fe's mainframe in Topeka, Kans. downloads data to specially equipped Model 8050 fax machines, which convert the information to facsimile transmissions and automatically dispatch faxes to customers who need them. Customers can sign up for daily reports on shipments picked up, shipments en route and estimated time of arrival, among other things. The system also automatically notifies these customers about delays.

For Santa Fe, the system is a labor-saving device. For Pitney Bowes, the high-end facsimile market is a lucrative sideline to its 71-year-old core business of manufacturing and renting postage meters. Pitney Bowes now gets almost half of its $3.2 billion in annual revenue outside of its mailing systems group. The company doesn't break out numbers for its facsimile division but says fax products make a significant contribution to revenues and profits of its non-mailing businesses.

The consumer fax business is dominated by a flood of Japanese machines, yet Pitney Bowes has carved out and defended a highly profitable niche. Pitney Bowes' strategy is to focus on the high end of the market, where facsimile is becoming integrated with other office technologies, such as computer networking and even voice processing.



This chart of the fax market includes only the newer, plain-paper technologies; they are rapidly gaining on the older "thermal" process, which uses coated paper. Plain-paper faxes, including Xerox's "thermal transfer" variety, are generally more expensive.

Although plain-paper faxes are rapidly gaining in popularity *(see chart)*, fax machines using the cheap but irksome medium of thermal paper are most of the market in unit terms. This low end of the business is so competitive as to be barely profitable. Sharp, Canon, Ricoh and at least three dozen other Japanese and Korean manufacturers and resellers battle for buyers of cheap faxes. Says Dennis Roney, the president of Pitney Bowes' facsimile division, "I think there are very few fax companies, if any, making money today outside of Pitney Bowes."

Products like the one Santa Fe uses, backed by an extensive support network, have enabled Pitney Bowes to capture an estimated 45% of the fax market at large corporations.

Pitney Bowes makes its money designing, marketing and servicing fax machines. It leaves the manufacturing to Japanese firms like Canon and Matsushita, the parent company of Panasonic. In this respect it resembles several very successful semiconductor firms, including Altera Corp. and Cirrus Logic, that have no chip fabrication lines at all.

Pitney Bowes markets its faxes through a direct sales force backed by an extensive support network. In its selling habits Pitney Bowes bears a resemblance to some older U.S. firms. As IBM, Xerox and NCR did in their heydays, Pitney Bowes persuades most of its customers to rent, rather than buy. This overcomes the fear that a costly purchase will be obsoleted overnight by new technology. It also enables salesmen to say: Try it and see if it doesn't save you money.

Not that Pitney Bowes doesn't have stiff competition in the business-to-business market. Xerox and Canon, both with large corporate accounts, have become more aggressive with higher-end products like machines that print on plain paper using lasers. Xerox and Toshiba are ahead of Pitney Bowes in introducing "fax servers," which enable all the computer users on a local area network to send faxes with a single device.

The Pitney Bowes salesman, however, has other features to trumpet—"unique selling propositions," as NCR's founder, John H. Patterson, used to call them. The top-of-the-line Model 9550 fax machine offers "multitasking"—the ability to scan pages into the machine's memory while the unit is sending or receiving documents. On the receiving end, this fax can store documents in as many as 50 private mailboxes, each of which can be preset with its own access code to ensure privacy. If your office has one of these, you can arrange to have one mailbox with a published number, on which you would receive unsolicited or low-priority messages, and another with a number available only to people you want to hear from. Another Pitney Bowes feature is custom software that enables a mainframe to automatically "post" information to various fax machines in a network on a regular basis. That was the clincher for the sale to Santa Fe.

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COMMENTARY BY RICHARD A. SHAFFER

Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter.*

PERHAPS YOU SUFFER, as I do, from SIS—Sharper Image Syndrome. Like millions of Americans, I find myself impulsively drawn to the high-tech executive toys sold by the Sharper Image and similar catalog merchants. Do I really need a gadget that digitally measures the percentage of fat in my body, or diagnoses the faults in my golf swing? Will a pocket-size computer that translates English to Japanese help me more than a phrase book the next time I get lost in Tokyo? Probably not. Yet I find these digital doodads fascinating; more often than I should, I buy one.

The gadgets are symptomatic of the way that computers are creeping into our daily lives. In place of the electric typewriter we have now the electronic typewriter, which is really a word processing computer in disguise. Those electronic keyboards that more and more musical groups are adopting are really computers on the inside. Your compact disc player is a little computer that does mathematical computations in order to convert digital codes into sound.

There's no reversing the trend. Everything that used to have a spring or a motor, everything that moves or measures, is being computerized in some fashion. If the slogan of the mainframe and minicomputer eras was "One computer, many people," and the slogan of our microcomputer era is "One person, one computer," the slogan of the future is "One person, many computers."

Not only are computers rapidly being added to the appliances in our lives, but we also are witnessing the emergence of a new product category, the appliance computer—small, special-purpose computers that are intended as companions to desktop computers and other machines.

At first a Sharper Image toy, the Sharp Wizard and other appliance computers are actually becoming useful, productivity-enhancing products. Take the word of a doubter. I once regarded electronic organizers as wastes of money; now, however, the organizers are getting enough computing power and memory to hold worthwhile amounts of information, and even faster, more capacious, slimmer machines are to be introduced at the Las Vegas Consumer Electronics Show this month.

At present, individual investors have few ways to profit from the rise of appliance computing. Hewlett-Packard is doing extremely well with its appliance, the $700 (list price) model 95LX, which is good at spreadsheets and also serves as an organizer. But HP is so large that the 95LX doesn't make much difference in the price of its shares. The same goes for Sharp Electronics and Casio, the Japanese consumer electronic powers that every month are selling a hundred thousand or so Wizard and Boss organizers.

One or two individual-investor opportunities do exist, however, and more will no doubt emerge. For example, if you're one of those who believe that millions of us soon will be using a stylus instead of a keyboard to tell our computers what to do, you might want to bet a little money on Communication Intelligence Corp., which trades on the Vancouver exchange. (Yes, there are some legitimate outfits that trade in Vancouver.) The company makes software that enables computers to read handwriting, competing, to be sure, with some better-known players, including Microsoft and privately held GO Corp. Another appliance maker is Psion, which makes a better organizer than the Wizard or Boss. Its stock is publicly traded in the U.K.

Among private companies in appliance computing, I'm watching Traveling Software in Bothell, Wash., which is growing with the rise of laptop computers and executive organizers. Traveling Software supplies programs that enable these mobile machines to share information with deskbound computers.

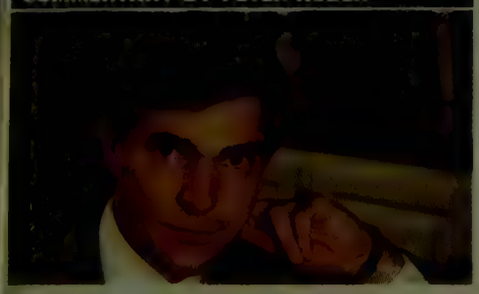
My current public-market favorite in appliance computing is a company that I had given up for dead, Franklin Electronic Publishers (FORBES, *July 10, 1989*). A decade ago Franklin made a name for itself by duplicating Apple computers but was forced into bankruptcy when Apple won a lawsuit against it. Emerging from bankruptcy in 1985, Franklin again entered the clone computer business, and was on the verge of another failure when management hit upon the idea of an appliance computer—electronic dictionaries, language translators, spelling checkers and the like.

In last year's September quarter, Franklin showed solid profits for the first time in a long while. Franklin's trading volume is quite thin; it's hard to get in and out of the stock. Its products, however, are becoming increasingly remarkable. For example, because its language products can translate inflected forms of words, it's actually possible by using one of these $300 (list) gadgets to comprehend a letter written in a language you've never studied.

Franklin recently has attracted two big names as executives, the former head of the American Express catalog division and the former head of the computer science department at Yale University. Competitors, such as Smith Corona, are retreating from the business. Franklin's machines are becoming faster, and this summer it plans to market a pocket-sized unit that can hold a staggering 12 million bytes of information on chips. ■

Bury that tree, bury it deep

COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of the just published *Galileo's Revenge: Junk Science in the Courtroom* (Basic Books).

SO NOW YOU have to get rid of that tree. You're probably planning to haul it off to the landfill—if you can sneak it past your ten-year-old. The kid, schooled in the bah-humbug, zero-growth spirit of our times, has been carping about your environmental boorishness since the day you brought the tree home. He didn't care for the colored electric lights, either. That tree's gonna die, Dad. That electricity was produced with coal, Dad. Coal means carbon dioxide. Way to go, Dad! Kill a tree, fill a dump, suffocate a planet, but have a happy holiday.

Well listen up, kid. You're dead wrong. The environmentally conscious dad like me deposits his tree at the bottom of a landfill. A deep landfill, where it won't rot, won't decompose, won't do anything except sit tight for about a million years.

You know what coal is, kid? Dead trees. Eight hundred million years ago the earth's air was mostly carbon dioxide. Then green plants came along and began sucking it all up. They thrive on it. For green things, carbon dioxide is sweet purity, while oxygen is dirty waste. And when those green things died, they sank to the bottom of the swamp. After a while they sank deeper. That's coal, kid: yesterday's landfill. We dig it up. We burn it. We unbury the long-dead trees. The carbon pours back into the air.

If you're worried about that, Junior, what do you do? Go down to Brazil and admire the rain forest? Not on my credit card you don't. So long as it's standing still, not growing, not sinking into a swamp, the rain forest takes no more carbon out of the greenhouse air than it puts back in. Sure, the greenery sucks in carbon. But lots of ungreen things live in the forest too—rot, mold, bugs. And the little bugs work every bit as hard as the trees, composting dead leaves, biodegrading everything in sight, and sending all that carbon dioxide straight back to where it came from. The air.

It comes down to this. Every human on the earth emits about 25 pounds of carbon into the air every day, directly or indirectly. That carbon either came out of the ground as oil or coal, or it came out of the air by way of trees, tulips, turnips or anything else that's green and growing. So anyone who wants to help with the carbon dioxide problem for real has to find a way to pull a few pounds of carbon back out of the air and lock them back up in some place safe.

Go work for the lumber industry, for example. The lumber people grow new trees, then cut 'em down and grow some more. The trees for paper pulp are mostly cultivated deliberately. Even if they're harvested from the wild, something usually grows in their place. New growth, whether planned beforehand or spontaneous afterward, decarbonates the air.

But where does the carbon go after the tree is cut down? If the wood is burned or allowed to rot, the carbon goes back into the air, and you're back where you started. Use the wood to build a house, though, and the carbon stays put so long as the termites don't get to it. Use the wood to make paper pulp, and the carbon goes wherever the newspaper or the disposable diaper goes. Burn the newspaper, compost the diaper, and once again you're back where you started. But if you bury them deep—if you plant some new coal, so to speak—then you make real progress.

The trick is to make sure that the new growth keeps arriving and the old growth keeps departing. That's where the landfills come in. About two-thirds of what we put into them is carbon-based. If you chuck plastic, you're just closing a loop—the carbon came out of the ground as oil, it returns as landfill. But bury a newspaper or a dirty diaper and you do some real good. Paper, wood, diaper fillers—all are about half carbon. For every 2 pounds of McDonald's packages or well-soiled Luvs you send to the dump, you bury about a pound of carbon. Some of that will decompose and rot, but much of it won't. After all, if it were all rotting away, the doom-and-gloom crowd couldn't complain that there's no room left for our garbage.

You say you'd rather compost the garbage? So far as greenhouse problems are concerned, biodegrading things is no better than incinerating them: Instead of feeding a man-made fire, you feed the gut of some bit of slime mold. Either way, the calories get burned up and the carbon goes straight back into the air. Worse still, some of the carbon goes back into the air as methane, a much worse greenhouse gas than carbon dioxide. Call me a rapacious despoiler of the earth, kid, but this is fact: Plant, chop and bury is the only surefire way to suck carbon dioxide out of the air and put it back into the ground.

So long as we're digging carbon out of the ground, it's irresponsible not to put some of it back in. Don't tell me that nobody will take it: People who dig dead trees out of holes in the ground just have to accept responsibility for filling those holes back up again. Don't tell me there's no room out there: What came out of a hole yesterday can go into a hole tomorrow. This is called recycling. Planting some carbon now and then is the only honest kind of recycling for people who aspire someday to cruise around in hot rods with their friends. So stop lecturing me about killing the planet, kid, and give me a hand burying that tree. ■

Cameras tell us a great deal about ourselves, and few know as much about cameras as collector Jack Naylor.

I am a camera

By Christie Brown

WHEN JACK NAYLOR of Brookline, Mass. wants to photograph the grandchildren under the Christmas tree, he faces a dilemma. Which of his 6,500 cameras to use?

The 69-year-old consultant and former chairman of Standard-Thomson, an auto and aircraft parts manufacturer, has spent 35 years and over $2 million amassing the world's largest camera collection. It includes cameras from 31 countries, dating from 1842 to the present. He has daguerreotype, multiple lens, aerial, toy, spy, gold-plated and modern undersea robotic cameras.

Knowing which cameras are valuable requires a true specialist's feel. "There have been about 36,000 models of cameras made, and only 2% to 3% are worth more than $200 or so," says Naylor. Of his old Kodak Brownie, which he's had since he was a kid, Naylor says: "It's worthless."

Even the finest specimens rarely fetch five figures. The auction record for an old camera was last set in 1977 at Christie's in London, where an 1856 British dual lens camera fetched $37,000. The most Naylor has ever spent was $28,000, for an 1845 daguerreotype, complete with bottles of mercury, rottenstone, pumice and shellac to develop the brass and silver plates. Daguerreotypes were popular from 1840 to 1855; there are only about 100 still known to exist. Even so, Naylor doesn't think most of these old models would sell for more than what he paid. Cameras, in short, are affordable collectibles.

Naylor became a camera buff as a teenager, when he taught himself how to develop photographs. An engineer by training, he started picking up cameras on business trips in the 1950s. When in a foreign city, Naylor would take out ads in the local papers. Over the decades he has built a network of people from China to Buenos Aires who have contacted him when interesting old cameras pop up.

An undercurrent that seems to run through the history of the camera is a human desire to invade someone else's privacy. Naylor's collection includes several hundred "detective" cameras, which were a Victorian fad circa 1880. They were used mostly by wealthy amateurs to sneak photos of women on the streets. One prize example: an 1880 French camera disguised in a striped cravat. The cravat pin is a lens and a small chain advances the film. This camera in a tie is now worth $25,000. Naylor also has an elegant 1902 silver walking stick camera (worth $25,000) and an 1890s deceptive-angle binocular camera—in which the camera lens shoots at a right angle to where the binoculars are pointed (worth $8,000).

Another elaborate device for sneaking candid shots is Naylor's 1886 vest camera (worth $4,000). Worn under a man's vest, its lens is fitted into a buttonhole. "The instructions say to push out your chest and suck in your gut so you don't get too much blue sky in the picture," grins Naylor.

One of Naylor's favorites is a spy

Photos by Lunc Cornell

Jack Naylor at home with his 6,500 cameras
The largest collection in the world.

camera disguised as a pack of John Player cigarettes that was made and used by the KGB in the 1970s. How it was acquired is a spy tale itself. Naylor first met with a black marketer in Moscow in 1980 and told him of his interest in unusual cameras. A year later he was called at his home and told to bring $1,200 to a coffee shop on Third Avenue in New York City, where the exchange was made.

The first commercial camera was introduced in 1839 by the Frenchman Louis-Jacques-Mandé Daguerre. An instant rage, the camera was copied by local craftsmen around the world, and within two years most major towns in America had a daguerreotype establishment. In 1900 Kodak introduced the Brownie for $1, and cameras became the domain of the general public.

Most camera makers made low-priced models. But since it started making cameras, in 1925, Leica has been the top-of-the-line house. Like Patek Philippe watches, Leicas are still sought by serious collectors for the name alone (FORBES, *Oct. 31, 1988*).

Leica Luxus, a steal at $8,000
One collector offered Naylor $110,000 for this rare Leica, all done up in red lizard and gold plate.

Naylor's cache of spy cameras
Clockwise, from left: Camels pack is Swiss, lighter is Japanese, matchbox is by Kodak, spyglass is British, John Player pack is from the KGB, watch is American, pen is Japanese.

Naylor's quest for one particular Leica brought him to Dresden, in eastern Germany, just weeks after the fall of the Berlin Wall. He paid $8,000 to a private individual for a red lizard skin, gold-plated 1930 Leica Luxus. "A Japanese collector later offered me $110,000 for it," says Naylor, who turned down what would have been a record price for any camera.

If you get bitten by the camera bug, be aware there are fakes around, many made in Poland and Czechoslovakia. For novice collectors, it's best to buy from auctions or dealers that will guarantee what you buy.

While there are no major camera auctions in the U.S., three European houses hold regular sales: Christie's in London; Auktionshaus Cornwall, Cologne, Germany; Auction Team Köln, Cologne, Germany. All three houses are having major auctions this spring and each will estimate the value of an old camera if you send a photo.

What if you want to put an old camera back into use but the film isn't commercially sold? Naylor uses 9½-inch-wide Kodak aerial film, which he cuts down to the required size. But the trouble and expense (the smallest roll of such film is 125 feet long and costs $689) is more than most amateurs want. Kodak refers specialty requests to Film For Classics, P.O. Box 486, Honeoye Falls, N.Y. 14472.

The best source book for collecting clubs, newsletters, dealers and prices is *McKeown's Price Guide to Antique & Classic Cameras,* published once every two years by James McKeown, Centennial Photo Service, Grantsburg, Wis. 54840. Available in major art bookstores (price: $40).

What camera is Naylor most likely to use for family shots? Not a Leica, not a French detective camera, and certainly not a daguerreotype. His favorite workaday camera is a recent-vintage, easy-to-use Nikon F-3.

Did An Accident of Nature Make It The Quietest Car You Can Own?

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Latin scholar/executive Luigi Salvaneschi says business students ignore the humanities at great cost.

Dante, M.B.A.

By Fleming Meeks

DOES THE FACT that the M.B.A. degree is losing its luster *(see story, p. 76)* have something to do with the typical business school's curriculum? Luigi Salvaneschi, retired president of Blockbuster Entertainment and a former senior executive at McDonald's Corp. and Kentucky Fried Chicken Corp., thinks so. "I have been dealing with M.B.A.s throughout my career," says Salvaneschi, "and they are frightening. Absolutely frightening."

Born in northern Italy, Salvaneschi, 62, holds a degree in canon law from the Vatican's Lateran University in Rome. His long career in business, he says, has convinced him that the essence of commerce does not reside in spreadsheets or flowcharts. Rather, it springs from culture, communication, education and philosophy. "You get only closed-minded technicians from [business] schools," Salvaneschi complains. "And the higher the level of the school, the more they are that way."

Acey Harper

Luigi Salvaneschi
"M.B.A.s are frightening. Absolutely frightening."

Salvaneschi came to this country, M.B.A.-less, in 1959, after marrying an American professor of history he'd met in the Vatican library. Failing to find employment as a Latin scholar, he took a job frying hamburgers and mopping floors at McDonald's in suburban Chicago. Within four months he was managing the store, and in 1962 McDonald's founder, Ray Kroc, sent him to California to open the company's first West Coast stores.

For the next 20 years Salvaneschi helped develop new territories and concepts for McDonald's in the U.S. and around the world. His biggest innovation, he says, was scaling down the size of McDonald's outlets to take them into smaller markets. Over 3,500 of McDonald's 8,700 U.S. stores began as so-called Mini Macs. Salvaneschi claims that the transformation of McDonald's stores—from garish structures literally built between golden arches into more conventionally designed buildings—is directly related to Aristotle's notion of "essence," that which is enduring and immutable. McDonald's Aristotelian essence, he convinced Kroc, was convenience and service, not the hokey stores, which he felt would ultimately limit the company's growth.

Salvaneschi brought his scholastic talents to McDonald's international operations, too. Before taking McDonald's into Holland, France and Japan, he spent his spare time reading up on each country's history, government and civilization and learned the basics of its language. "I did not think I would understand the markets if I did not understand the inner thoughts of the people that formed those markets," he explains.

In 1983 Salvaneschi moved to Kentucky Fried Chicken, where he spent nearly five years as a senior vice president in charge of real estate and construction. Then Blockbuster Chairman H. Wayne Huizenga recruited him to head up development at the fledgling video rental chain in 1987. Blockbuster, which had about 40 stores at the time, grew to nearly 1,700 stores by the time Salvaneschi left early last year. His work did not go unrewarded. In his three years at Blockbuster, he earned over $2 million in salary and stock options.

Throughout his 31-year business career, Salvaneschi continued to read classical Latin every day. He's currently reading Virgil's *Georgics*, a celebration of the joys of nature. And he argues that the best long-term business strategy ever articulated was Dante's *Divine Comedy*.

How's that? "Dante Alighieri created a whole universe," marvels Salvaneschi. "Not only in its total, but in its parts. He was able to create all the parts and fit them together in an incredible structure.

"This ability to create with proportion and balance," he adds with a soft Italian accent, "is what's lacking in today's business school graduates."

Salvaneschi hopes to help fill that void. As an adjunct professor of special subjects at the Andreas School of Business at Barry University in Miami Shores, Fla., he is working with the dean of the 13-year-old institution to develop a new curriculum. In addition to the standard M.B.A. fare, the new requirements—expected to be implemented next year—will include knowledge of two foreign languages, as well as in-depth courses in European, South American and Asian history, politics and culture.

"Directly or indirectly," says Salvaneschi, "all businesses today are international."

THEIR IDEA OF EVENING NEWS.

6:00PM Local News
6:30PM Network News

OUR IDEA OF EVENING NEWS.

3:00PM Headline News
3:30PM Headline News
4:00PM Headline News
4:30PM Headline News
5:00PM Headline News
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6:00PM Headline News
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Alabama is inside the continental United States. In fact, it is located in the center of the most desirable relocation region in the country.

All work and no play wouldn't make sense in Alabama. Enjoying an old rocker, a wide porch, and some good conversation is still a favorite pastime here.

You will still see a lot of Alabamians going without shoes—mostly on the sandy white beaches of Gulf Shores.

While you might think of overalls as the clothing of choice, most uf us prefer blue or white shirts. Alabama's traditional labor force has shifted from farming to more service and high-tech industries.

Alabama Isn't Where You Think It Is.

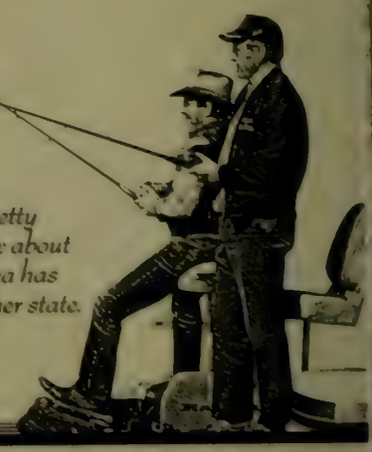
Football rivalries here strong as ever. But tod colleges and universit helping Alabama bu maintain a competitiv as well, offering rese capabilities in areas automotive manufactu magnetic information s to food products.

If you think we take moonshine, you're only right. But it isn't the ki moonshine you think. O has played a leading r developing the space pr In fact, Alabama has pr seven astronauts—more any other state.

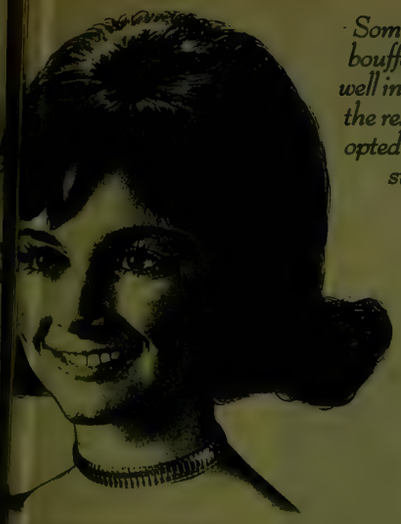
Some say you're moving to the edge of the world when you move to Alabama. In some parts of the state, you could say that's true; the southern ridge of the Appalachians offers some spectacular views.

Practicing our aim is still a favorite pastime for many Alabamians. In fact, our prowess as sharpshooters was proven in the Gulf War by the Patriot Missile, which originated in Alabama.

The fiddle may be the first musical instrument you would connect with Alabama. And you'll still see a lot of them in the state's many symphony orchestras. (Although they refer to them as violins.)

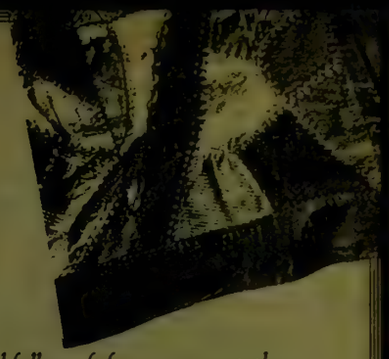


Yes, we do a lot of fishing here. And some pretty important people, including the President, know about our beautiful lakes and rivers. In fact, Alabama has more miles of navigable waterways than any other state. We use them for shipping, too.



Some are convinced the bouffant is still alive and well in Alabama. But, like the rest of the country, we opted for more up-to-date styles years ago.

Sorry, that's a different state entirely.



A revered folk craft from our past, the attention to detail and intricate handwork used in our quilts has been passed down to newer generations and applied in fields like electronics for assembling circuit boards.

So you think our workers come out of trailers. Some of our best actually do. Alabama Industrial Development Training, a free service to industry, has the nation's largest fleet of mobile training units. Some businesses have traveled from as far away as Singapore and Japan to employ AIDT-trained workers.

Yes, you'll probably see a few cows. But we don't just settle for raising cattle. Researchers at Auburn University have developed a whole line of leaner foods like the McLean burger, a product McDonald's is flipping over.

, we're still early risers. In fact, amians are known for our strong ethic. But these days, most of us depend on electric alarms.

Once known for its smokestacks, irmingham has diversified in recent des to a service-oriented economy, with ealth care our main industry. Steel mains important to our economy, but day's state-of-the-art mills contrast harply with the old. In fact, one old furnace is now a museum.

If Alabama is nowhere near what you thought, maybe there's more you should know about our state. For instance, what makes it a great place to live and a great place to work. What makes companies like JVC America decide to make their headquarters here. Why GE has made its largest single capital investment, close to $1 billion, in Alabama. And why people like one Connecticut family, who thought they were being "sent to hell" when transferred here, now like it so much, they wouldn't think of leaving. If your company is considering expansion or relocation, consider Alabama. You just might find it's pretty close to ideal.

ALABAMA

For more information, contact the Economic Development Partnership of Alabama: P.O. Box 2641, Birmingham, Alabama 35291-0001; 205 250-2226

Hamburger helper

BARRY GIBBONS, 45, has done a smashing job at Grand Metropolitan Plc.'s Burger King unit.

British-born Gibbons was dispatched to Burger King's Miami headquarters in 1989, after Grand Met paid $6 billion for Pillsbury Co., the chain's parent. Once there, he found a company that had had five presidents in ten years, and whose relations with its franchisees were frazzled. To reduce the franchisees' costs and widen their margins, Gibbons quickly centralized Burger King's purchasing and supply operation, to take advantage of the chain's purchasing muscle. Combined with cuts in management layers, that has saved $74 million. To improve quality, he instituted a "mystery shopper" program, whereby headquarters employees pop in unexpectedly on every store at least once a month. And he experimented boldly with the menu. Currently some 70 new products—including Weight Watchers meals—are being tested; compare this with only one product introduction in the three years prior to Gibbons' arrival.

Results? With the net addition of 400 new outlets, overall operating profits rose to $247 million, on systemwide sales of $6.2 billion in the fiscal year ended Sept. 30. Pillsbury never broke out Burger King's results, but analysts doubt that operating income ever passed $175 million.

Gibbons, who ran 2,000 restaurants and pubs for Grand Met in Europe, is attractively modest about the commonsense changes he made at the chain. "It's not very glamorous, but that's the kind of stuff that was needed," he says. –SETH LUBOVE

Closed-end capitalism

A FORMER Fulbright scholar and Citicorp vice president, 44-year-old Jerzy Thieme was born in Warsaw, left Poland in 1981 and now acts as chief adviser to Poland's privatization minister. Thieme's new privatization plan: Take 300 or 400 of Poland's healthiest companies and split their equity among 15 or 20 closed-end funds. The funds would receive 60% of the companies' equity. Thirty percent would stay with the state treasury, and employees would get 10%. Shares in the funds would then be distributed equally to adult Polish citizens.

Within a year citizens would be able to trade their shares in the funds. In the meantime, the funds' managers would be allowed to trade the companies' assets among themselves.

In effect, the fund managers would manage the underlying companies. Thieme's goal is to leverage Western management skills among a large number of enterprises. Fund managers will restructure the companies as continuing ventures or sell them, proceeds to be distributed to the funds' shareholders.

Thieme admits that it will be diffi-

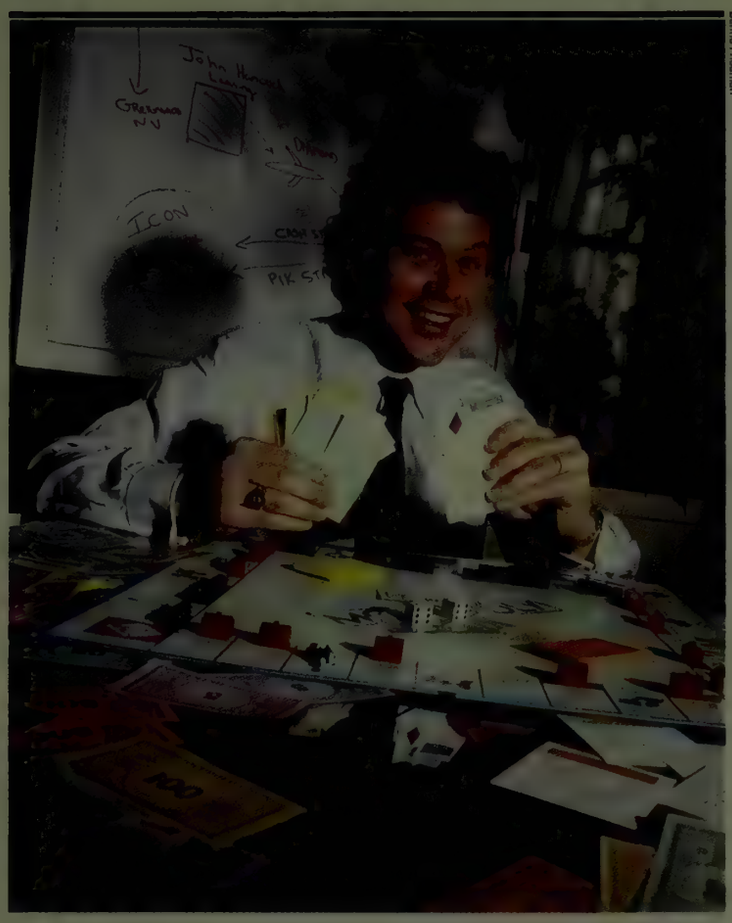
Red Morgan

LEFT:
Burger King Chief Executive Barry Gibbons
He turned the company around in two years.

Barbara Kinney

BELOW:
Polish privatization adviser Jerzy Thieme
Looking for a few good managers.

RIGHT:
Lance Lundberg, president of Icon International
You can repay him with empty hotel rooms.



Bernie Friedman

BELOW:
Robert Johnson, president of BET Holdings
Disappointed investors beat him up in the Q&A.

Louis Anthony Myrie

cult to find capable managers for the funds; he hopes to recruit them from the West. But, whatever the obstacles, he insists that Poland's privatization efforts must be accelerated. In two years, he notes, Poland has privatized only about 20 of its 6,000 state-owned companies. "At this rate," grumbles Thieme, "we are talking about privatizing Polish industry by the year 3000."

–KATARZYNA WANDYCZ

Rough introduction

IT WAS A TOUGH week before Christmas for Robert Johnson, president of BET Holdings, the parent of Black Entertainment Television. The company, a $51 million (sales) Washington, D.C.-based cable programmer tailored to a black audience, went public in October at $17 a share and immediately shot up 50%.

But on Monday, Dec. 16, Johnson convened a conference call with 100 analysts and investors to announce quarterly results. He told them that compared with the same quarter last year, BET's revenues were up 14%, operating income was up 8% and net income was up 13%.

The numbers weren't bad, but the analysts had expected better. Disappointed, they barraged Johnson with questions about BET's operations, especially its subscriber base. When Johnson fumbled some replies, the analysts got nervous and began dumping the stock. By Wednesday, BET had dropped 8 points, to 15¼. Citing an "extreme professional crisis," Johnson abruptly canceled all his appointments, asked the New York Stock Exchange to halt trading in BET, and set up a second conference call, which only raised new concerns.

Finally, on Thursday, BET's lead underwriter, First Boston Co., got everybody on the phone again, this time with support from Johnson's accountants at Price Waterhouse. All the questions were answered and Price Waterhouse assured jittery investors that the numbers were kosher. BET rose 2⅞ that afternoon, closing at 18¾. Recent price: 20⅞.

Says the 45-year-old Johnson, who started the firm in 1979 with a $15,000 loan: "I have definitely been introduced to the public market."

–BRIGID MCMENAMIN

Barter meister

LAST SPRING Lance Lundberg showed New York's Lexington Hotel how to buy a $150,000 computer system for next to nothing. Lundberg's company, New York-based Icon International, gave the money to Lexington in exchange for over $300,000 in room credits, which Icon holds as inventory to be sold—or bartered—later. The Lexington, which always has some vacant rooms, loses nothing but the cost of changing the sheets as Icon draws down its credit.

"That's barter financing," says Lundberg, 35. "It's financing paid with capacity surplus by companies with a low marginal cost structure."

Lundberg, a philosophy major at Yale, got a master's at the Harvard Business School and then went to work at Booz, Allen & Hamilton. In 1985 he raised $4 million through Noro Group, a Dutch money management firm, to try out his barter financing ideas. Last year Icon's revenues (cash plus the cost basis of incoming goods) passed $30 million.

Icon's first clients were cable television stations like Financial News Network. They needed expensive equipment and had no earnings but lots of unsold airtime. Icon purchased video equipment and traded it to the cable programmers in exchange for future airtime, a fungible commodity that Icon can sell. Or barter: Last year it traded airtime for equity in a new company that sells $300 home burglar alarms via two-minute TV spots.

Other Icon clients include hotels, cruise lines and magazines (FORBES is one). What's next? Telecommunications. "It's the ultimate low marginal cost product," says Lundberg. "What does it cost to send one more light pulse?"

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FORBES MAGAZINE'S Laucala ISLAND

THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

Market watchers are never at a loss for a rational explanation of what happened in the stock market yesterday. Never mind that the explanations don't do you much good when it comes to predicting the stock market.

A year ago stocks were climbing because investors expected an early end to the recession—so said the pundits. The recession, though, drags on into 1992. Shouldn't stocks be getting killed? They aren't, and there's a new justification for what is happening: lower interest rates. Late in December, following a cut in the Federal Reserve's discount rate to 3.5%, the Barra All-US index of approximately 5,500 common stocks jumped to a record high.

Is there any reason to buy stocks now, once they have climbed to 26 times earnings? William LeFevre, a market strategist at Tucker Anthony/Sutro, offers a standard one: Stocks aren't so bad, when you consider the low-yielding alternative of fixed-income investments. "Investors who want to make 15% or 16% in 1992 will have to be in the stock market," he says. "You can't get those returns from Treasurys anymore."

Nonetheless, it may pay to take a look back at stock market history. In the early 1950s interest rates were lower than they are now, yet the Dow industrials averaged only 11 times earnings. If there's a good reason a repetition of low interest rates should make stocks worth twice as much now, it isn't apparent in all the euphoria over the Fed move.

For investors who are nervous about today's high P/E ratios but don't want to exit into cash, consider the alternative of relatively high-yielding, low-P/E stocks. John Kaweske, manager of the Financial Industrial Income Fund, has been beating the market with a portfolio that includes a large dose of real estate investment trusts, especially those that own health care facilities. Yields are in the 8%-to-10% range. His choices include Meditrust and Health & Rehabilitation Properties.

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	5.7%	25.6%	0.0%
Sharpe/Barra Growth index[1]	7.0	34.9	0.0
Sharpe/Barra Value index[2]	5.3	19.2	–1.3
Dow Jones industrials	6.5	17.4	0.0
S&P 500	6.1	23.3	0.0
NYSE	5.8	24.0	0.0
Nasdaq	4.3	50.7	0.0
Amex	3.1	24.3	–3.8
EAFE[3]	2.8	8.0	–20.0
CRB index[4,5]	–0.2	–5.5	–23.1
Gold[5]	–0.8	–7.7	–29.3
Yen[5]	–2.2	–7.3	–22.9
Oil[5]	–7.3	–30.7	–55.0

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
SyStemix	53 1/2	62%	NA	Best Buy	14 1/2	–40%	$1.56
Summcorp	38	42	$2.68	Good Guys	14 3/4	–39	1.13
Liposome	13 1/8	40	–0.39	Sierra Tucson Cos	16	–28	1.71
Toll Brothers	10 1/8	37	0.49	Diagnostic Products	35 5/8	–27	1.95
Glycomed	18 1/8	36	–0.78	Delta Woodside Inds	17 3/4	–25	2.06

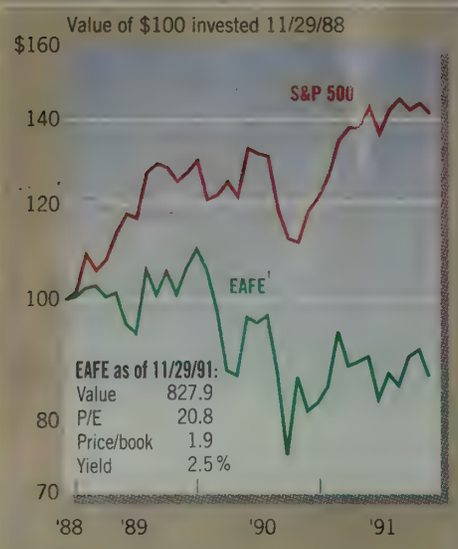
The best and worst performing industry factors[6,8]

Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Construction	13.8%	12.5%	Precious metals	–5.8%	–18.8%
Consumer durables	13.7	32.7	Photographic, optical	–1.9	4.2
Real estate	12.8	14.7	Oil service	–0.3	–10.2
Beverages	11.8	30.9	International oil	0.2	19.4
Thrifts	11.7	15.7	Liquor	1.2	47.5

Note: Data for period ending 12/26/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. Principal source: Barra, Inc., Berkeley, Calif.

BY GUSTAVO LOMBO

Foreign vs. U.S. markets



Developed markets

Market	Total return[2] 3 months	12 months	P/E
New Zealand	10%	11%	10
Japan	5	11	36
Belgium	5	3	11
Netherlands	4	10	14
Australia	4	30	16
Norway	–24	–31	11
Finland	–14	–21	53
Sweden	–10	12	16
United States	–4	20	20
United Kingdom	–4	6	15

Emerging markets

	Total return[2] 3 months	12 months	P/E
Region			
Latin America	0%	114%	NA
Asia	–4	2	NA
Country			
Colombia	92	113	17
Pakistan	45	107	17
Venezuela	40	57	25
Zimbabwe	–38	–52	8
Brazil	–28	69	8
Indonesia	–23	–38	14

In 1991 the happiest U.S. investors were those who stayed home. Morgan Stanley Capital International Perspective reports that only three developed markets beat the U.S.—Hong Kong, Australia and Singapore/Malaysia. (These results are through Nov. 29, 1991 and assume that stocks were bought and sold with U.S. dollars.)

Among developing countries, Mexico was a standout, with a 12-month return of 105%. Elizabeth Morrissey, vice president of Kleiman International Consultants, a New York firm specializing in emerging markets, credits the Salinas government's privatization program, plus falling interest rates, an improved earnings outlook and optimism about the free-trade agreement with the U.S. The Mexican market's current capitalization is $86 billion, up from $33 billion in December 1990.

What about 1992? Martin Wade, who manages the T. Rowe Price International Stock Fund, predicts that when European government long-term bond yields (currently over 8%) fall, stocks in the Netherlands, France, Germany and some other European countries will benefit.

Who's hot

Company/Country	Business	Price	3-month price change	P/E
Groupe Victoire/France	insurance	273¼	62%	19
Toyo Ink/Japan	chemicals	5½	49	47
Beazer/UK	construction	2	46	12
Carter Holt Harvey/N Zealand	multicompany	1⅛	37	14
Total CFP/France	energy	196	34	8

Who's not

Company/Country	Business	Price	3-month price change	P/E
Ercros/Spain	chemicals	4	–49%	53
Adia/Switzerland	business svcs	310⅜	–41	7
British Aerospace/UK	aerospace & def	5⅝	–38	4
Linotype-Hell/Germany	data proc equip	187⅞	–37	10
Ericsson B Fria/Sweden	elect & electron	19⅛	–34	7

Cheap foreign stocks

Company/Country	Business	Price	Earnings	P/E
Aegon/Netherlands	insurance	65⅜	$9.74	7
Bayer/Germany	chemicals	167⅞	18.41	9
Endesa/Spain	utility	28½	3.22	9
Hitachi Credit/Japan	financial svcs	11½	0.37	31
Elf Aquitaine/France	energy	69	8.04	9

High-yielding foreign stocks

Company/Country	Business	Price	Yield	P/E
Stockland Trust/Australia	real estate	1⅞	9.8%	12
Powerfin/Belgium	utility	73⅝	9.3	8
Iberdrola I (Iberduero)/Spain	utility	6⅞	8.7	10
Natl Bank of Canada/Canada	banking	9⅞	7.2	9
Hongkong Land/Hong Kong	real estate	1⅛	7.2	11

Note: Data for period ending 11/29/91. Selected stocks have a market capitalization of at least $300 million. [1]Shows price return on the EAFE index of European, Australian, New Zealand and Far Eastern stocks converted into U.S. dollars. [2]Performance numbers reflect both local price change and currency fluctuation. Dividends are reinvested after subtracting foreign withholding tax. NA: Not available. Principal source: Morgan Stanley Capital International Perspective. Emerging markets data provided by International Finance Corporation.

Announcing

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Appearing in the May 25, 1992 issue of Forbes will be *Meeting the Challenge of Sustainable Development*, a special advertising supplement produced in conjunction with the United Nations Conference on Environment and Development. The supplement will promote the 1992 Earth Summit in Rio de Janeiro and the emerging concept of sustainable development. It will open with a special introductory message from UNCED Secretary-General Maurice Strong, whose office is collaborating with the producers of the special supplement, World Communication Works, of Stamford, CT, and Chuck Wilhelm & Associates, of San Jose, CA.

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Forbes

Three-way bond funds are the latest hot sales item. But you don't have to pay extra to get this kind of portfolio.

Do it yourself

By Eric S. Hardy

PUTNAM'S SELLING PITCH for the Master Income Trust it brought out in 1987 was one of the oldest rules of investing: It pays to diversify. The closed-end fund, which quickly raised $465 million, split its portfolio three ways: in foreign bonds, in U.S. Treasurys and in junk. Each of these three bond sectors offers a much better yield than a money market; each, by itself, carries a substantial risk. But a blend of the three should offer a good yield while exposing the investor to much less risk than any one bond sector by itself.

How so? Each of these bond groups tends to move independently of the others and sometimes in opposite directions. Junk bonds move with the stock market, but the performance of foreign and U.S. government bonds relates more directly to the strength of economies, currencies and interest rates.

In a high-inflation, high economic growth environment, for instance, junk bonds should do well, as investors anticipate improvement in the credit quality of the issuers. Government bonds, however, would suffer, because their returns couldn't keep up with inflation.

Here's one case where the theory has worked, to judge from Putnam's results. Over the past three years the fund has averaged an excellent 13% annual return on its portfolio. As for risk, the fund's volatility comes in at 7.3% per year, lower than the volatility on long-term Treasurys.

Putnam's fund was such a sales success that in 1988 Putnam raised $1.5 billion for two more closed-end funds with the same objective. First Boston and Massachusetts Financial Services followed suit, bringing out similar funds of their own. The table shows a collection of funds with portfolios allocated among three types of bonds—U.S. government and agency obligations, junk bonds and foreign government and corporate bonds.

There's only one drawback to this kind of fund: It's a rather expensive way to invest, at least if you buy the fund at its original offering and then try to sell it a few years later. Putnam Master Income came out at a 7% premium: Investors paid $1.07 to get only a dollar's worth of bonds. Now the portfolio is trading at a discount. For each dollar's worth of bonds, you get only 91 cents when you sell your shares. Thus, an investor who bought at the original offering and cashed out ended up with a very disappointing return.

But there's an easy way around this problem. Create your own three-way fund, using open-end funds from a no-load fund house. That way you pay only one dollar to get one dollar of bonds, and when you sell, which you can do at any time, you receive full value.

Suppose, for example, that you had concocted a blend-it-yourself bond portfolio at Fidelity. An investment divided equally among its Capital & Income Fund (a junk bond fund), its Government Securities Fund and its Global Bond Fund would have returned 9% a year over the past three years, not quite as good as the original Putnam closed-end blend but better than the Putnam Master Intermediate Income Trust. The hypothetical Fidelity blend would have been a little less volatile than any of the Putnam blends.

The value of diversification proved itself at Fidelity. The blend's 9% return is two points better than the return on a 100% holding in Fidelity Government Securities. Yet the blend's volatility has been almost identical to that of the government bond fund. ■

Three-legged stools

Fund	Recent price	Premium (discount)[1]	Current yield	Assets ($mil)	Annual expenses per $100	—Performance[2]— 1-year	3-year annualized	Volatility[3]	Conversion date[4]
First Boston Strategic Income	10⅛	2.5 %	12.1%	$ 82	$1.00	30.9%	10.0%	6.3%	1994
MFS Charter Income Trust	10⅜	(3.3)	11.2	902	1.03	23.3	—[5]	—[5]	1995
Putnam Diversified Premium Income Trust	11	(1.9)	9.8	100	1.57	22.7	—[5]	—[5]	—[6]
Putnam Master Income Trust	8⅛	(8.7)	9.3	451	1.08	21.8	13.1	7.3	1994
Putnam Master Intermediate Income Trust	7⅝	(8.2)	9.1	318	1.08	21.0	7.5	5.0	1994
Putnam Premier Income Trust	7⅝	(8.2)	8.1	1,107	1.06	16.8	9.8	5.4	1994
Fidelity do-it-yourself blend[7]	NA	0.0	10.3	NA	0.97	16.4	9.1	3.6	NA

[1]As of Dec. 20, 1991, except First Boston Strategic Income, which is for Dec. 17. [2]Total return through November 1991, assuming reinvestment of dividends. [3]Annualized standard deviation of monthly returns, past three years. [4]Earliest date of conversion to open-end fund. [5]Fund not in existence for full period. [6]Will merge into the Putnam Diversified Income Trust, an open-end fund, on Jan. 17, 1992. [7]Hypothetical portfolio consisting of equal parts of Fidelity's Capital & Income, Global Bond and Government Securities funds. NA: Not available.

The idea behind these six closed-ends is that Treasurys, foreign bonds and junk bonds make a good mix because they move almost independently of one another. You can also do the mixing on your own, using no-load funds.

Fidelity's convertible bond fund has been a standout for the last three years. What's it been doing right?

Play it both ways

By Katarzyna Wandycz

A CONVERTIBLE BOND is one that can be exchanged for a set number of shares of stock. There are two ways to look at this hybrid: as a bond that has an equity kicker, or as a stock that happens to have some bondlike features on the side.

Harris Leviton, who began managing the Fidelity Convertible Securities Fund in July 1990 at the young age of 29, can go either way, but he's more of a stock man at heart. For him, most converts, at least the ones worth buying, are just another way to own stock; the fixed-income attributes are incidental. Evidently there's nothing wrong with seeing convertibles in this light. In the 12 months through November, Leviton's fund earned the fifth-best return among 30 convertible bond funds tracked by Morningstar. Its 17% average annual return over the past three years is almost twice the average for all convertible bond funds.

You don't have to look far for an explanation for Leviton's predilections. Before taking over the convertible fund, he ran two all-stock portfolios for Fidelity, Fidelity Select Electronics and Fidelity Select Software & Computer Services. Leviton maintains 15% to 20% of the convertible fund's portfolio in those industries.

Leviton begins by studying products, markets and managements. Having found stocks he would like to own, he decides whether the convertible bond is the cheaper way to own them. The buyer of a convertible generally pays 5% to 50% more than the value of the stock into which it is convertible. In return for this so-called conversion premium, the convert buyer typically gets a much better current yield and a bit less volatility. If the stock tanks, the bond won't go down as much; if the stock takes off, the bond will go up, but not as much.

If all this makes convertibles sound like the closest thing to a no-lose proposition, remember that if interest rates go up and the stock market goes down, convertible bonds have two reasons to crash.

Susan Landes

Fidelity Convertible Securities' Harris Leviton

He's more of a stock man at heart.

Leviton's biggest convertible position, 5% of the $120 million fund, is Chiron Corp., the biotechnology company. When Leviton bought Chiron's 7¼s of 2015 in December 1990, he paid $1,000 for a bond convertible into stock then worth $852. Since then Chiron's common has risen 60%. The bonds have gone up only 40%, but they have also paid $70 apiece in interest, while the stock has no yield.

Leviton has a $3 million position in the 10s of 2001 from Canadian auto parts maker Magna International Inc. The company almost went bankrupt in 1990 when car production fell. Since then Magna has cut costs, sold assets and returned to the black. The company's common has risen from 8 to 16⅞ in the time that Leviton has held the bonds. Leviton's bonds, convertible into 117.3 shares of Magna common, have climbed almost as much, to $2,010 per $1,000 of face value. Yet Leviton took less risk than buyers of Magna common. They could easily have been wiped out in a bankruptcy. The bondholders, in contrast, would have stood just behind general creditors.

The equity-minded Leviton keeps about 25% of the fund's money in common stocks. Sometimes he likes a company, but not its convertibles. An example is Communications Satellite Corp., the wholesaler of long distance circuits and the fund's eighth-largest holding. Comsat's 7.75% convertibles due in 1998 command a 52% premium over the underlying common. Why bother? The bond's 7.75% current yield is not all that much better than the common's 4% dividend; thus, it will be fairly hard for convertible buyers to earn back that 52% premium via the yield enhancement.

Leviton does buy some convertibles for their yield. One is the 7.5% due 2011 issued by connector maker Brintec Corp. At the price of $770 per $1,000 face, the bond has a yield to maturity of 10¼%—or almost three percentage points better than a Treasury with a similar maturity. There's no equity play here; the 1989 takeover of Brintec by a British firm rendered the bond's equity kicker worthless.

A tenth of Leviton's portfolio is in busted converts—those whose underlying common shares have fallen so far since the bonds' issuance that the conversion rights are almost irrelevant, and the bonds trade, like the Brintec issue, on yield to maturity. "They're great for the days when the market crashes," he says.

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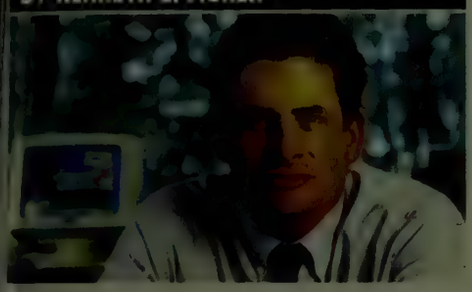
Who is right about the economy? The stock market, which keeps rising? Or the media, which keeps glooming?

Misery in the media

BY KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books: *The Wall Street Waltz* and *Super Stocks*.

FOLKS ARE much too pessimistic—which is very bullish. Don't get me wrong. Yes, we have had a rough recession and face plenty of problems. We all know that. But we have faced much worse problems before and will deal with these, too. It's surprise that moves the market, not what we already know, and I am sure that the surprises will be mostly good ones. If you routinely read the dire news in the press or, worse, hear it on network news—if all your friends already know about it and if politicians blithely assume it—it simply doesn't count. Forget it. Look elsewhere for events to move the stock market.

I travel a good deal, talking with the people controlling our largest pension plans—most of America's liquid assets and therefore most of the money that moves the market. I see and hear darn little optimism for the economy or the stock market. Consumer sentiment numbers show the same from the guy on the street. Too much debt, lousy politicians, the fading consumer, deteriorating social and moral values. More and more you hear and see things like the recent *New York Times* headline that this isn't a recession but a depression.

Depression? In depressions there is massive unemployment, 20% or 25%. In big recessions like 1975 and 1982 we got 9% and 10% unemployment. In this one we never got more than 7% unemployment. And yes, Martha, it has been getting irregularly better, not worse, despite all you read about layoffs. Employment is rising. It's just that everyone who isn't unemployed is so God-awful gloomy.

I suspect much of the gloom owes to the fact that media businesses are in the toughest economic times they have seen since the Great Depression. They feel bad, and figure you should, too. They report it as they feel it.

The networks, with the exception of Turner, are losing big bucks—they have never done that before. The big newspaper chains have seen drastic profit declines, and lots of little newspapers actually died this year. While it isn't possible to get a handle on it, I think magazines as a whole are losing money—all for the first time.

Much of the media's problems are of their own making, not the economy's. First came two decades of overexpansion. Think of how many more specialty magazines of every type there are than there were 20 years ago. Look at all the new TV capacity through cable. Even newspapers, with comers like *USA Today* and *Investor's Business Daily*.

Meanwhile, in the get-lean-and-mean craze of the late 1980s, a major change began in the way many advertisers, primarily those with relatively mature products, viewed advertising. They learned that they could cut two bucks of name maintenance advertising, add a dollar of in-store promotion and maintain revenue and boost profits. It worked. Falling ad volume has hobbled the media.

But the country, possibly as opposed to some media businesses, isn't going to hell. I think this recovery will be modest but solid. So the surprise will be pleasant. Earnings will turn up nicely and stocks will do just fine, particularly smaller ones. As the decade progresses, demographic shifts will be the most powerful and positive force America has felt in decades, as our most productive age groups swell and the least productive age groups fall relative to total population. Savings and consumption will both grow nicely, which happens only at this one phase of the very long term demographic cycle. If recent years felt like rowing upstream, the late 1990s will feel like a raft ride down the Mississippi—quiet, powerful and unending.

As I write, the Value Line Arithmetic, our best index of America's average stock, is at 310. By the year 2001 I expect it to be nicely above 1,000.

Some stocks for a longer 1990s laundry list include:

Ladd Furniture (7, o-t-c) is dirt cheap selling at book value, 30% of annual revenue and 6 times cash flow. It is down from 25 four years ago. It should regain at least half that by 1995. *Watkins-Johnson* (11) will see a pickup next year from its semiconductor customers but sells now at two-thirds of book value with almost no debt. *Furon* (14, o-t-c) sees few buyers for its specialty plastic components—now—but will, and by then the stock will double.

General Host (7) is also way down from its 1986 peak of 25. After years of restructuring and increased focus, America's largest nursery chain now has a much better future than is indicated by its selling at 80% of book value, 10 times earnings and 25% of annual revenue.

I recommended *Drug Emporium* (6, o-t-c) at 9 last Apr. 15, and it has been a real disappointment as inventory problems rocked the stock. But it is cheap and I think Chief Executive Gary Wilber has things well in hand; 1992 should shine.

Finally, my Oct. 21 recommendation of *SCI Systems* (6, o-t-c) has been held back by heavy year-end tax-loss selling. The new year should make up for the last few months. ■

Unlike other top-performing market-timers, Bob Nurock turned bullish early last month and caught the year-end rally. What does he think about stocks now?

Happy elf

BY MARK HULBERT

Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

ROBERT NUROCK, editor of *Bob Nurock's Advisory* investment letter, is no longer a star on TV's Wall Street Week but he still has a substantial following—and a good record to match.

Most of the best market timers have been bearish on the market. Not Nurock. Last month, just before the year-end rally pushed the Dow into record territory, he turned bullish. His short-term model (what he calls his "Elves Short-Term Predictor," or ESP) issued a buy signal on Dec. 9, and his intermediate and longer-term models (such as his "Technical Market Index," or TMI) improved to a point from which they could turn "quickly positive." For investors who took Nurock's advice, December was a profitable month.

Those familiar with Nurock's record were not surprised. Among the dozen market-timing systems tracked by the *Hulbert Financial Digest* since 1980, Nurock's TMI has the best record. An investor who switched between an index fund and cash since mid-1980 on Nurock's signals would have achieved a total return of 474% (through 1991's third quarter), compared with 368% for the Wilshire 5000's total return.

For the record, I must point out that Nurock's TMI has been lagging the market over the last two to three years—by stubbornly staying in a neutral posture while the market battled to new highs. But the TMI doesn't lag the market by much, owing to the fact that it has been steadily earning money market interest. And in any case, Nurock's ESP timing model, which is shorter term and generates a greater number of switches than his TMI, has beaten the market since 1989.

What made Nurock last month turn bullish on the market short term? Two things. The first is the fact that investors had grown increasingly pessimistic about the economy and the probability of new stock market highs; widespread doom and gloom is, of course, bullish from a contrarian's standpoint. Nurock saw similarities between December's gloominess and that prevailing in October 1990, which coincided with the bottom of the correction (and the peak of investor pessimism) brought on by Iraq's invasion of Kuwait.

The other development that led Nurock's models to start flashing buy signals occurred on the monetary front. Even prior to the Federal Reserve's Dec. 20 cut in the discount rate to 3½%, Nurock believed that the Fed's easing was on the verge of leading to positive economic results. Indeed, he detected signs that liquidity in the economy was beginning to improve. If this trend were to continue, he felt, it would go a long way toward solving the debt problems that overhang the financial markets. Nurock predicts that the worst for the economy "will be seen by the end of 1992's second quarter" and that ensuing economic improvement will lead to an upswing in consumer confidence and to a sustained rally.

Not surprisingly, the year-end rally led investors to become less pessimistic about the stock market. And if the sentiment picture continues to deteriorate—if investors become wildly bullish, for example—Nurock says the rally's future would be in doubt. In the meantime, however, Nurock remains bullish short term.

What about the longer term? In a sense, the late December rally was bad news for Nurock. Prior to the rally, he says, the most favorable development would have been for the market to decline to "oversold extremes," accompanied by "aggressive pessimism." Because the year-end rally made such abject pessimism less likely, Nurock has become less confident that the preconditions for a TMI buy signal will be met very soon. Still, Nurock's cautious optimism is enough to set him apart from other top-performing market timers. The Institute for Econometric Research, for example, whose *Market Logic* advisory letter is another top timer, predicts that a ferocious bear market is imminent, will last at least several years and will cause the average stock to decline by nearly one-third. The institute recommends that investors use any rallies to cut back on equity positions.

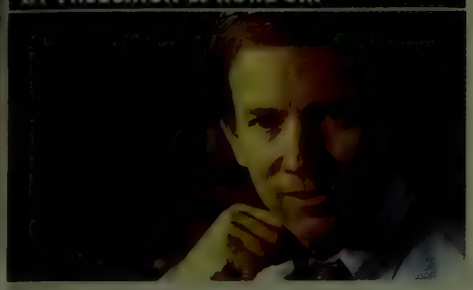
As a wary bull, Nurock believes the market in the year ahead will be quite selective, and that in choosing stocks investors will have to pay more than the usual amount of attention to fundamentals. This is because interest rates are likely to rise quite quickly once the economic recovery gets underway in mid-1992. Thus Nurock advises staying away from companies with lots of debt.

The stocks on Nurock's buy list include Baroid Corp., an oil and gas service company that trades at around 5; Carriage Industries, which manufactures carpet and sells for about 5; Tremont Corp., a titanium and bentonite mining company selling at 15; and Viatech Inc., a mapping and surveying firm that trades at 5. ■

With interest rates sinking, a lot of people are fleeing into stocks. They may live to regret it.

Cash is not trash

BY FREDERICK E. ROWE JR.



Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

MY FRIEND Mrs. Jones is typical of investors these days. Like a lot of Americans trapped in that most despised of assets—cash—she is upset. "If they think I'm going to put up with 4% on my CDs, they've got another think coming. I can't make ends meet on 4%. Stocks are the place to be."

It has been nine years since we have had a meaningful bear market. That is a long time by stock market standards. In the intervening years—years in which the major stock market indexes have tripled—professional investors have learned that it pays to buy every dip. Egged on by the "cash is trash" chorus of investment gurus, the Mrs. Joneses of the world have entered the market en masse both directly and through the purchase of mutual funds to a degree not seen in more than 20 years.

With interest rates down, countless individuals and institutions are depending upon the stock market to deliver the sort of performance that will enable them to meet their financial objectives. For example, many major investment plans actuarially assume 8% returns. With long-term rates at 7½%, fiduciaries must shift assets to the stock market in spite of dubious fundamentals.

While stocks may appear to be overvalued, the bulls will tell you, history has shown that long-term investors in common stocks fare better than investors in any other class of financial assets. Attempting to time the stock market is futile. So while there will surely be dips, buy and hold. Your patience and courage will be rewarded. And furthermore, this is an election year, and election years generally have been good in the stock market.

Maybe so, but cash is not trash. The irony of cash, as a few cynics have pointed out, is that when it seems least attractive is when you want to hold it, and vice versa. For example, in 1982, with money market rates approaching 20%, the public opted for cash. The smart move would have been to move out of cash and into bonds and stocks.

This is not a typical recession. What we are seeing is the sort of debt liquidation that occurs regularly every 50 or 60 years. It has been called a "contained depression." The value of stocks, real estate, private companies, art, oil, collectibles, etc. expanded with the expansion of credit. The value of those assets, with the lone exception of common stocks, has contracted with the contraction in credit. It is illogical to presume that common stocks alone will prove immune to major economic forces.

Valuation. The current multiples of book value, dividends and earnings are at the very upper reaches of historical valuation levels that never have been meaningfully exceeded. Despite the fact that interest rates are the lowest they have been in 19 years, it is foolish to ignore stock market history, which goes back a good deal further.

Supply and demand for shares. During the great bull market of the 1980s, corporations and pension funds were continual buyers of stock. Billions of dollars' worth of stocks were taken off the market through leveraged buyouts and corporate share repurchase programs. This past year the pattern was dramatically reversed. More new common stock was issued by corporations than during any other year in recorded stock market history. Furthermore, corporate insiders have been selling at a pace that seldom has been exceeded.

Pension funds, traditionally a source of stock market demand, are now a source of stock market supply. They are paying out more in benefits than they are taking in.

By definition, for a bull market to continue, the demand for shares must exceed the supply. Corporations, insiders and pensions are selling. The public is buying, not because it feels optimistic, but because it is desperate for return.

Technical stock market analysts will tell you that falling interest rates are bullish for stocks. Falling rates are a sign of health for the stock market. It seems to me that interest rates in an economy are a little like blood pressure in a medical patient. When a patient's blood pressure drops, it is generally a healthy sign. Occasionally, though, it is a sign that there is something desperately wrong.

The Federal Reserve and the Administration are committed to "kick starting" the economy, to getting it moving again. Similarly, a doctor is committed to getting a patient back on his feet. The federal medical team has continually administered large doses of adrenalin and electroshock to the sinking economic patient. So far the patient has responded disappointingly to the escalating stimulus. When the economic patient merely twitches, there is cause for grave concern.

The bearish side has been a loser for a long time. It will not be on the losing side forever. The more investors flee from cash, the closer the turn becomes. ■

Alan Greenspan's late December slashing of the discount rate will do little to make borrowers borrow or lenders lend. Keep buying bonds.

A play with no actors

BY A. GARY SHILLING

A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and investment advisers. His firm publishes *Insight*, a monthly newsletter covering the business outlook and investment strategy.

NO DOUBT ABOUT IT, the Federal Reserve is pushing on a string. Despite the expansion in Fed-created bank reserves, loans continue to fall, as does the broader real money supply. Fed Chairman Alan Greenspan's decision late last month to cut the discount rate by a full percentage point—to 3.5%, the lowest since 1964—will, I am afraid, do little to stiffen the string.

The basic problem is that the credit drama's three actors don't want to put on the play. The banks remain offstage. When bankers see loans go sour, those who made them dismissed and the fine old banks involved forced into shotgun mergers, they retreat from the lending footlights. And they will stay there. After the foolhardy and ultimately disastrous loans of the 1920s, bankers in the 1930s were people who wanted to lend to those who didn't need to borrow and were unwilling to lend to those who did. Ditto in the 1990s.

Bank examiners are just as reluctant to leave their dressing rooms, despite the bigwigs in Washington telling them to encourage bank lending. Those political appointees in the Administration will be gone in several years, but I'm a career employee, reasons the typical bank examiner. Loans I discourage may have been okay, but who will ever know? Better safe than second-guessed.

The third member of the troupe, creditworthy borrowers, are also unwilling to play an active role. With fresh memories of scenes littered with the corpses of yesterday's heavy borrowers, they want to maintain their fortress-like balance sheets. Publicly held companies are especially sensitive, since today's market pays premiums for unleveraged balance sheets.

Since no players want to participate in the credit-creating drama, a weak economy, low inflation and dramatically lower interest rates are waiting in the wings. The coming severe, and global, second leg of the recession will drive long-term Treasury yields from the current 7½% to the 4%-to-5% range. Despite the big bond rally after the latest Fed ease, there is still big money to be made in bonds.

Many bond portfolio managers, however, worry that all those Fed-created bank reserves will come back to haunt them like Hamlet's father's ghost. They see the natural forces of economic recovery, aided by election-year-induced fiscal stimuli, setting the stage for a rousing economic recovery scene. Then, as confidence returns, those reserves, the raw ingredients for money creation, will feed explosive loan demand and a revival of bond-price-killing inflation. Bond managers also worry that foreigners, especially the Japanese, will dump U.S. bonds in favor of more attractive theaters abroad. They cite the falling dollar in support of this argument.

I like this skepticism. Like other markets, a long-lasting bull market in bonds will climb a wall of worry. It's when all the players are convinced that there is no risk that the production will flop. The fundamentals also suggest that those fears are vastly overdone. This is a debt-driven, balance-sheet recession, a species not seen since the 1930s, and totally unlike previous postwar declines, which featured inventory correction in the leading role. So the normal promoters of recovery will be tepid, regardless of the availability of bank reserves.

Lower interest rates will continue to have only minimal effects in stimulating new construction. Commercial real estate, vastly overbuilt by generous debt financing, will be as dead as Polonius for years. With the postwar boom in housing prices over and consumers remaining under crushing debt loads, lower mortgage rates will induce little new housing construction. Fiscal stimulus is another postwar recovery promoter, but the oversize federal debt and deficits of today will sandbag big tax cuts or spending increases, even in an election year. And any federal fiscal stimulus will be essentially offset as state and local governments close their budget gaps by raising taxes and cutting spending.

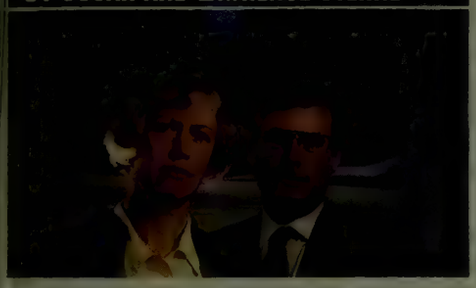
Even with economic recovery, there will continue to be two distinct sets of potential borrowers on the world's stage: the creditworthy but loan-averse, whom lenders idolize, and the credit-hungry but poor risks, whom lenders shun. In the future, as now, no one will want to lend in chaotic Eastern Europe. But the U.S. Treasury will have no trouble attracting funds, especially as the recession becomes global and deep, and Treasurys serve their usual role as international money's safe haven. In the future, as now, Americans who have the funds will work down their debts, while those in desperate need of money will have only credit cards and their friendly loan sharks.

As in the 1930s, this distinct division between creditworthy and unworthy borrowers will keep lending and hence economic activity subdued for years, regardless of how low the Fed pushes interest rates or how big a pile of bank reserves it creates. So by the final act, interest rates will be much lower and bond investors will continue to benefit hugely. ■

The consumer is about to start spending again, but not all businesses will benefit. Here are some likely candidates.

Until the recovery begins

BY SUSAN AND LAWRENCE STERNE



Susan and Lawrence Sterne are co-proprietors of Economic Analysis Associates, a Stowe, Vt.-based research and consulting firm specializing in the consumer sector of the economy.

THE RECESSION may still be on, but recent revisions of government statistics strengthen our opinion that the consumer will soon start spending again. A full-fledged, normal-strength recovery will be apparent by the final quarter of 1992 and throughout 1993. The consumer is actually in pretty good shape. Consumer saving during the 1980s has been revised upward by a hefty $460 billion. And the 1991 consumer saving rate was actually over 5%, considerably higher than initially reported.

The spending resurgence will begin in consumer nondurables (food and clothing, for example) and spread to durable goods (like household furnishings and autos) and services (airlines) by 1993. And it will follow a regional pattern, just as the recession has. Stability is already evident in the Northeast, and we expect the South Atlantic states—from Delaware to Florida—to follow. Near term, we expect companies operating in these regions to perform best, while those with heavy exposure in the Midwest or West will lag behind.

At present, real consumer spending is showing modest, selected signs of recovery. Spending is accelerating in consumer electronics (both durables, like VCRs, and nondurables, like compact disks), beauty parlors, cleaning and laundering, funeral expenses and private education. And, after several disappointing years, demand for food—both at stores and in restaurants—is growing again.

Few of the current spending gains are being carried through to the corporate bottom line. Paper companies, which increasingly lost unit sales as they raised prices, are now trying to change gears by selling more units at lower prices. Thus, though the sales of household paper products are rising four times faster than total spending growth, companies have little to cheer about because prices are falling. Until this changes, avoid *Kimberly-Clark* (102), *Procter & Gamble* (94) and *Scott Paper* (35).

We would also avoid companies exposed to rapidly deteriorating consumer demand. These groups include casinos and amusement parks, drugstore chains and ophthalmic and orthopedic appliances. Among the stocks we would take profits in are *Bausch & Lomb* (58), *Walgreen* (38), *Genovese Drug Stores* (14, Amex) and hearing-aid maker *Dahlberg* (13, o-t-c).

Because of economic uncertainty and high stock valuations, accelerating or decelerating earnings are critically important these days. Tracking spending momentum offers a way to evaluate earnings forecasts and provides a framework for further analysis.

Take the restaurants, where people finally are spending more. In a group with as much turnover as this one, look for the companies with strong balance sheets and high returns. Rather than buying *McDonald's* (39) and *PepsiCo* (34), both of which are highly leveraged and have mediocre returns on capital, we prefer *Morrison* (26, o-t-c), a nearly $1 billion (sales) operator of specialty restaurants. It sells for a relatively modest 14.5 times trailing 12-month earnings, and its 12% return on capital is above average for the group. Moreover, earnings are accelerating, and we think analysts will soon have to increase their forecasts. *Sbarro* (39, Amex) is a smaller chain that is attractive for similar reasons.

We also like grocery stores and food distributors. Major food producers like *H.J. Heinz* (39) and *CPC International* (90) are reporting poor earnings because weak domestic demand can no longer be masked by foreign results, now weakening as well. But as prices weaken and demand grows stronger, someone has to make money. We like distributor and coffee producer *Farmer Brothers* (100, o-t-c). There is no debt; return on capital is nearly double its nearest competitor's; it has a 15% five-year compound growth rate. Yet the stock sells for only 9 times trailing 12-month earnings. The other distributor/grocery chain worth a look is *Super Valu Stores* (26).

Finally, because almost 25% of last year's rise in consumer prices was a result of higher excise and sales taxes, we are comfortable forecasting only 2.5% inflation in 1992. As a result, we think mortgage rates will fall further, so we like housing-related stocks. Pricing currently seems to favor the purchase of a new home over an existing one.

The stocks of home builders already have had a nice run, but the runup could continue as evidence of improving demand mounts. *Lennar* (37) and *Pulte* (25) still look cheap. Nor should producers of building materials be overlooked, as their potential for operating leverage is awesome. Here, we like roofing manufacturer *Elcor* (9), door manufacturer *Morgan Products* (7) and forest products companies such as *Potlatch* (36) and giant *Weyerhaeuser* (28). ■

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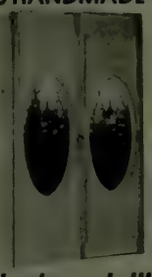

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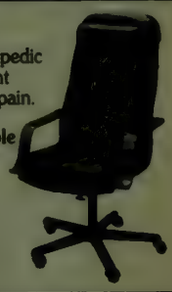

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What's Woolworth worth?

WOOLWORTH CORP.'S stock recently made a new 12-month low of 23½, down 35% from last year's high, and no wonder. Earnings for the current fiscal year, which ends Jan. 25, will be about $1.80 a share, off around 27% from the previous year, for the $10 billion (estimated sales) retailer.

Operating margins of the U.S. Woolworth division (variety stores) and Canadian operations—all told, some 40% of sales—have contracted by more than half, to an estimated 2.8% or so, over the last two years.

Other divisions such as Richman, Anderson-Little and Kids Mart also are posting lousy results. Even Woolworth's German division (over 20% of income) is slowing down.

But despite these negatives, all of which are well known, now may be a good time to start nibbling at Woolworth. In the U.S., the Foot Locker and Champs Sports divisions—footwear, athletic apparel and equipment—are doing well. Foot Locker also has been a success in Europe, where the division has been expanding rapidly.

This is no leveraged-to-the-cash-registers retailer. Woolworth's long-term debt is a mere 10% of total capital. Moreover, just as the company has suffered mightily during the recession, it will enjoy the results of considerable operating leverage come any economic upturn.

Earnings estimates for the coming year are running at around $2.50 a share. And while waiting for consumer sales to pick up, investors are paid a rock-solid $1.08-per-share dividend. At 4%, this yield should provide a good deal of downside protection.

A simulating experience

THE OUTLOOK for much of the aviation industry may be cloudy, but analyst Roland Williams of Albany, N.Y.'s First Albany Corp. likes the prospects of $285 million (estimated sales) FlightSafety International, Inc. Based in Flushing, N.Y., the company is the leading independent provider of pilot-training services to the general aviation, corporate, military and commercial airline markets. It also makes sophisticated simulators costing $3 million to $18 million. It operates 132 simulators at 36 locations worldwide, trains over 36,000 pilots a year, and has long-term contracts with 23 aircraft manufacturers.

For years FlightSafety was a fixture on FORBES' 200 Best Small Companies list *(Nov. 13, 1989)*. It's missing from last year's list because of an earnings decline.

New plane introductions, the turnover of an aging pilot population and the outplacement of pilot training by more commercial airlines will add to the demand for FlightSafety's services. In the regional airline market, the field is wide open, because few can afford their own training facilities.

FlightSafety simulator for regional airliners
Growth market.

Earnings compounded 26% annually from 1986 to 1990 but were stymied by the recession in 1991. Williams estimates earnings declined 5%, from $2.22 to $2.10 a share. But he expects the growth to resume in 1992, when he looks for $2.50.

Williams also likes FlightSafety's strong balance sheet. As of Sept. 30 it had $187 million, or $5.46 a share, of cash and equivalents; long-term debt, $31 million, was only 6½% of capital. His estimate of free cash flow—after capital spending and dividends—in 1992 is $66 million, or $1.91 a share.

The stock—recent NYSE price of 46¼, well off its 1991 high of 57—sells for 19 times anticipated 1992 earnings. Hardly cheap, but the price is at the low end of its P/E range of the mid-1980s. A return to its 1991 high would constitute a potential 23% upside. There are 34.3 million shares. Chairman Al Ueltschi and his family own about 35%.

Ghouls' choice

THE "DEATHWATCH" crowd has been wondering what to do about Rollins, Inc. Deathwatchers buy into companies run by aging founders who control a big chunk of the equity; the investors are speculating that once the founder dies, the heirs may decide to sell the firm.

Rollins' founder, O. Wayne Rollins, 79, died on Oct. 11. One of his sons, R. Randall, 59, has since been promoted to chairman and chief executive. The family controls 47% of the 23.7 million NYSE shares. The day the senior Rollins died the stock closed at 23⅞. It has since risen 20%, to a recent 28⅝. All told, the stock's up about 54% since its January 1991 low.

If the Rollins clan decides to cash out, the $480 million (estimated 1991 sales) company could make an attractive acquisition. Based in Atlanta, Rollins runs Orkin Exterminating, the largest U.S. termite and pest control concern.

The business accounts for nearly 90% of sales and earnings. Rollins also is in protection services and provides residential lawn-care services on a contractual basis. Its market capitalization is a digestible $678 million; long-term debt is nil; as of Sept. 30 there was $41 million, or $1.73 a share, of cash in the till.

But at what kind of premium might a sale take place? Analysts estimate that Rollins earned $1.33 a share in 1991, up 15%; estimates for 1992 are $1.50, a further 13% gain. With the stock in the high 20s, there's not a lot of room for a big premium.

Even if you generously capitalize Rollins at between 10 and 12 times estimated 1992 operating cash flow of $70 million, that still makes for a deal price of $30 to $35 per share—no more than 22% or so above the current market price.

Is Rollins worth a look minus the ghouls' takeover speculation? Probably. The stock's not cheap, at 19 times anticipated 1992 earnings, but that's still well within its traditional P/E

range. Chances are that it could trade up 15% to 30% over the next year or so anyway. Money manager Mario Gabelli likes the company even at current prices. He's been in the stock since the late Seventies; his funds own 10.5%.

Black and blue Black & Decker

THE STOCK of Black & Decker Corp., the world's largest maker of power tools, has been bouncing around like a golf ball the last couple of years. In 1990 it fell from around 20 to under 10 because of concerns about the recession's impact on the $4.6 billion (estimated 1991 sales) company.

Besides power tools, Black & Decker makes home appliances, cleaning and lighting equipment, fastening products, security hardware, and lawn and garden products.

Then, last summer, the stock careened back to nearly 20, partly on speculation that the Towson, Md.-based company might be acquired, perhaps by Newell Co., a successful dealmaker that already had bought shares in the open market (FORBES, *Jan. 6*).

But in August Newell bought $150 million of Black & Decker convertible preferred and signed a ten-year standstill limiting its stake to its current 15% holding. Since then, the NYSE-traded stock has dropped back to a recent price of 17.

Analyst Kemp Fuller Jr. of New York's RAS Securities has watched Black & Decker's swings closely. He recommended the stock in May, at 12⅜, predicting the share price could reach $19.60 in 1992—"It got there," he says, "but a year early!"—and that it would hit 25 by 1993.

Fuller estimates Black & Decker earned just 70 cents a share in 1991 and will earn $1.20 in 1992. But he's sticking with his target prices for 1992 and 1993, when he thinks the company can earn at least $1.60 a share. One caveat: More than 40% of Black & Decker's sales are international. A severe downturn overseas, Fuller admits, could delay the company's recovery. But he still thinks the stock will offer handsome gains over the next two years. (There are 61.8 million common shares outstanding.) ■

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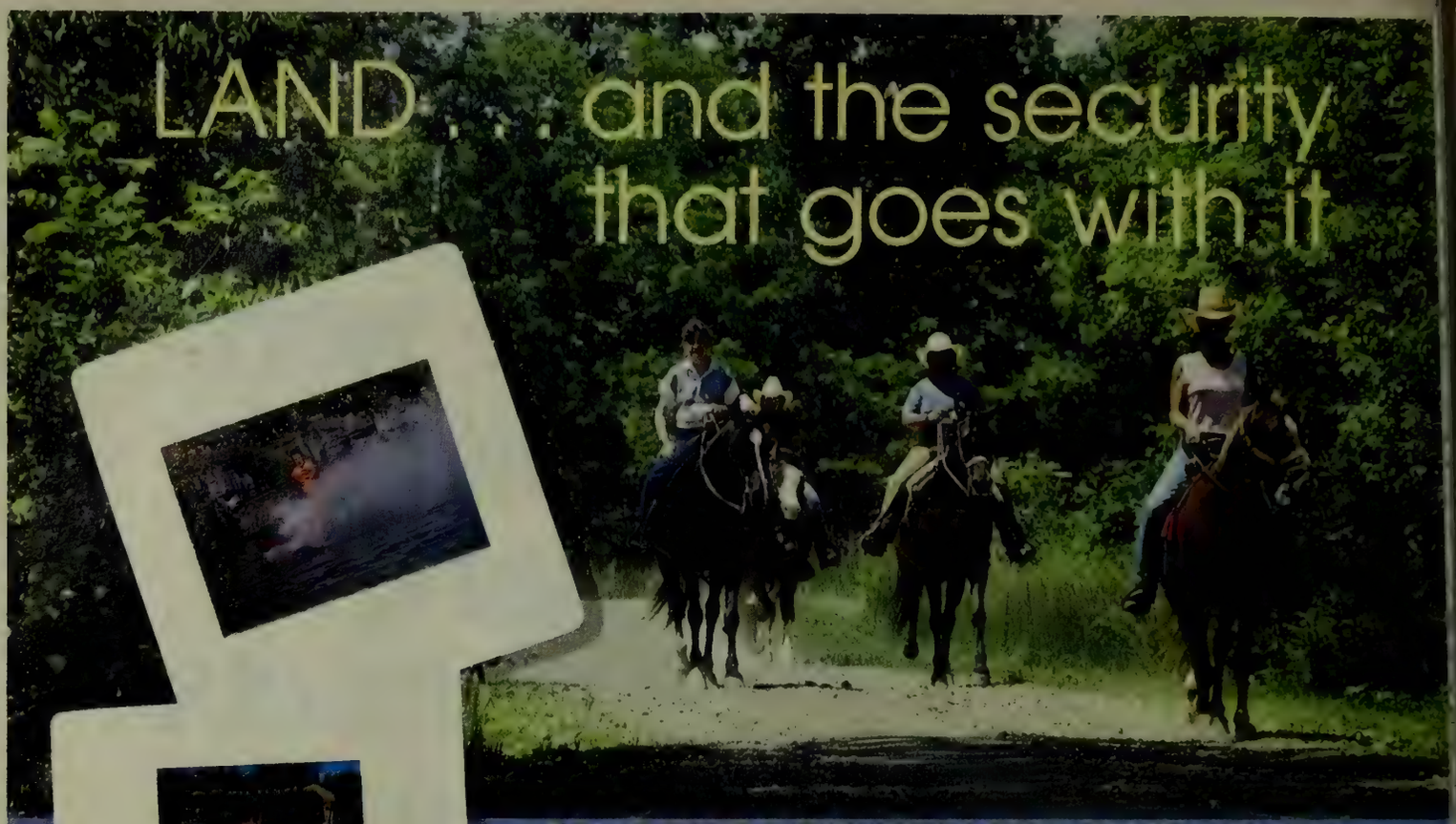

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"The more things change . . ."

70 years ago in Forbes

(From the issue of Jan. 21, 1922)

"**Very rich men** rarely talk about their money. Henry Ford is an exception in this respect, as he is in many others. Ford told an able interviewer that he has about $100 million worth of buildings, $100 million worth of machinery and a bank balance of between $135 million and $145 million—$10 million forwards or backwards is a matter too small for Henry to bother about."

"**Wages** of approximately 10,000 unskilled workers in the mills of the largest independent paper companies of the U.S. and Canada were reduced 20% by a decision handed down by a board of arbitration. Wages are cut 8 cents an hour, making the basic wage 32 cents an hour, or $2.56 a day."

60 years ago

(From the issue of Jan. 15, 1932)

Its 1932 Twelve, said Auburn, "accelerates faster, runs faster and smoother, climbs hills faster and easier than any other production car in America."

"**It is now stated,** and with fair confirmation, that Ford will abandon the contemplated four-cylinder job and swing into production of an eight to sell at the same price. Ford has been experimenting with eights for a long time, and the abrupt shift is neither impossible nor improbable."

"**When a recent** government bond offering threatened to fall flat, it was [Treasury] Under-Secretary [Ogden] Mills who jumped into the breach, spent feverish busy hours rounding up leading bankers and importuning them to increase their subscriptions. Had the dynamic Mills failed in his mission, the consequences might have had a damaging effect upon the government's credit in the eyes of the rest of the world."

50 years ago

(From the issue of Jan. 15, 1942)

"**Other momentous** events on the world scene during June [the German invasion of Russia] overshadowed in the public press an event of major significance in the field of British economics. On June 11 the British Parliament dealt another major blow to the tottering structure of free enterprise in Great Britain, when it put the coal mining industry, the backbone of Britain's industrial empire in the 19th century, under strict state control."

"**Synthetic rubber**—and only synthetic rubber—can be depended upon to replace the staggering material loss of the United Nations in the Far East. With Malaya and the Dutch East Indies, peacetime suppliers of 97% of the world's natural rubber, snatched from U.S. reach as effectively as though moved to the moon, the synthetics obviously must be forced to an undreamed-of expansion, not a decade hence, or even a few years hence, but *now*."

"**A recent survey** shows that 41% of all white men inducted into the Army during the past two years are high school graduates, or have some college training, compared with 9% during World War I."

25 years ago

(From the issue of Jan. 15, 1967)

"**The automobiles** started it and the airlines finished it: the end of the railroads as the great movers of people. Since 1946 alone, the number of passenger tickets sold has declined from 790 million to 299 million."

"**The worker of today** is not like his father, who had to quit school after the sixth grade; who never knew one day whether he'd be working the next; who had nothing to leave his family except his burial insurance, and who lost even that . . . in the Depression. The son can't remember when unions had to fight even for recognition. He hadn't been born then."

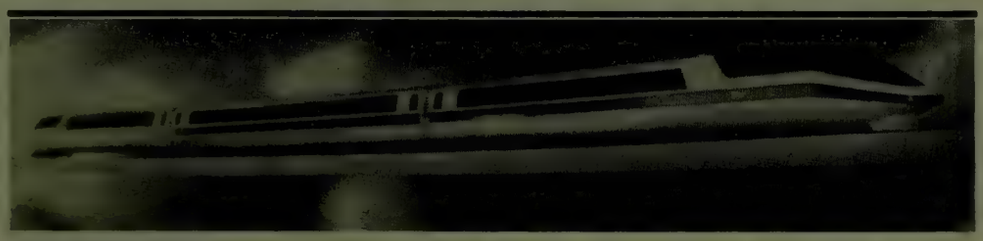
"**American** companies in Europe long ago adopted a European trick to get qualified executives. They offered impressive sounding titles, which are even more sought after there than in the U.S. Now the European companies are beginning to adopt an American weapon: high pay. 'Europeans whom we hired away with big salaries,' says one U.S. executive in Europe, 'are now being hired away from us at even bigger ones.' "

10 years ago

(From the issue of Jan. 18, 1982)

"**Women are continuing** to win more management spots in banking, according to the numbers filed this year with the Equal Employment Opportunity Commission. More than 38% of officials and managers in the top 100 banks are now women, compared with less than 15% 11 years ago."

"**The centralized Soviet** system is simply not working. Professor [Alec] Nove, now director of the University of Glasgow's Institute of Soviet and East European Studies, says: 'The center can no longer handle all the complexities. Can I give you one example? The planners decided to increase the supply of fertilizer, and did it. The agriculture ministry pat themselves on the back. Well done! *But*—transport of fertilizer? Storage of fertilizer? Bags for it? Machines to spread it? They're all behind schedule. . . . You've now got to make major changes in the system.' "



U.S. dreams 25 years ago of its own bullet train were, alas, only dreams.

Now, ideas are the raw material of progress. Everything first takes shape in the form of an idea. But an idea by itself is worth nothing. An idea, like a machine, must have power applied to it before it can accomplish anything. The men who have won fame and fortune through having an idea are those who devoted every ounce of their strength and every dollar they could muster to putting it into operation. Ford had a big idea, but he had to sweat and suffer and sacrifice in order to make it work.

–B.C. Forbes

A Text ...

Beloved, I wish above all things that thou mayest prosper and be in health, even as thy soul prospereth.
–III John: 2

Sent in by Mrs. Goldie Redman, Evans Mills, N.Y. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Those who agree with us may not be right, but we admire their astuteness.
–Cullen Hightower

It is difficult for men in high office to avoid the malady of self-delusion. They are always surrounded by worshippers. They are constantly, and for the most part sincerely, assured of their greatness.
–Calvin Coolidge

Cleaning your house while your kids are still growing is like shoveling the walk before it stops snowing.
–Phyllis Diller

French novels were written for adults, and confined to adults. English novels were thrown open to schoolgirls—and cut down for them. In Paris the baby was forbidden to read the man's literature; in London the man was often compelled to read the baby's. Both conditions can be described as liberty.
–G.K. Chesterton

If a nation expects to be ignorant and free, in a state of civilization, it expects what never was and never will be.
–Thomas Jefferson

A man's ancestry is a positive property to him.
–Edward G. Bulwer-Lytton

When a true genius appears in the world you may know him by this sign: that all the dunces are in confederation against him.
–Jonathan Swift

If I keep a green bough in my heart, the singing bird will come.
–Chinese proverb

Work only a half a day. It makes no difference which half—the first 12 hours or the last 12 hours.
–Kemmons Wilson

A man is likely to mind his own business when it is worth minding. When it is not, he takes his mind off his own meaningless affairs by minding other people's business.
–Eric Hoffer

If you haven't got anything nice to say about anybody, come sit next to me.
–Alice Roosevelt Longworth

England is the paradise of individuality, eccentricity, heresy, anomalies, hobbies and humors.
–George Santayana

Next to the dog, the wastebasket is man's best friend.
–Anonymous

More tears are shed over answered prayers than unanswered ones.
–St. Theresa of Avila

There's a goat in all of us, a stupid, stubborn goat.
–R.P. Blackmur

In nature a repulsive caterpillar turns into a lovely butterfly. But with human beings a lovely butterfly turns into a repulsive caterpillar.
–Anton Chekhov

The nationalist has a broad hatred and a narrow love.
–André Gide

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Forbes

Dow Jones CEO Peter Kann

Can he preserve the franchise?

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I just smiled.

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Then there's the patented new brake cooling system; the first of its kind to deflect massive volumes of air without increasing either drag or front end lift. And on and on, right down to engineering so meticulous that there are even two new patents on the spare tire system.

Porsche 9

*Comparison of EPA Federal Test Procedure results for 968 coupe and 944S2 coupe.
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eased it sooner, pplying for patents.

e 968 possesses patented Porsche ideas from past years as well. Including recent breakthroughs, like the optional Tiptronic transmission. The world's first dual-function gearbox, it allows either full automatic or clutchless manual shifting.

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We could continue at length. But the most intriguing gifts to the automotive world would be the newest ones, housed in the 968. To find out more, or to arrange a private viewing at your authorized Porsche dealership, call 1-800-252-4444.

The 968 may have been awhile in coming. But as always with a new Porsche, it was more than worth the wait.

e next evolution.

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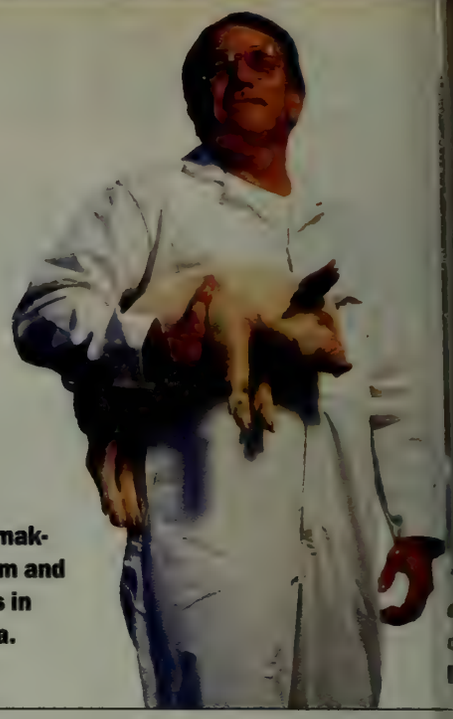

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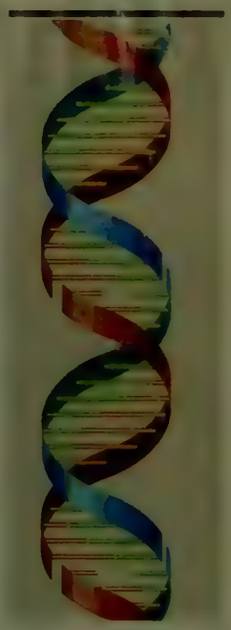

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February 3, 1992
Volume 149
Number 3
FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048.

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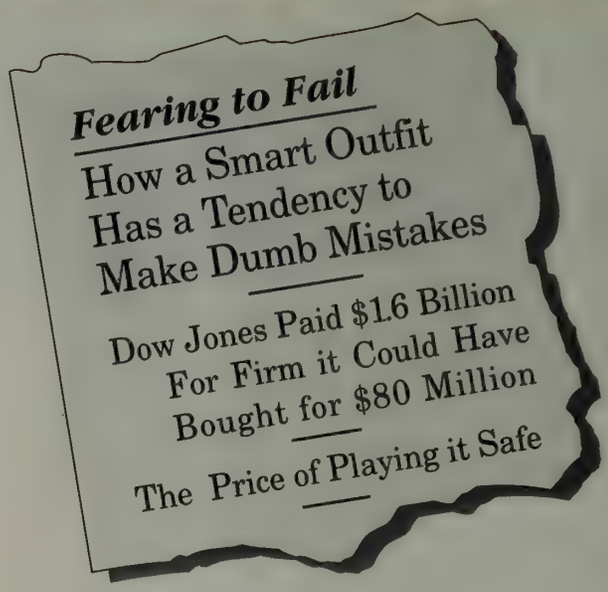

THE ABOVE IS, I think, how the *Wall Street Journal* might headline a front-page leader had the editors decided to do one of their iconoclastic numbers on their own publisher, Dow Jones & Co.

Written by Subrata Chakravarty and Dana Wechsler Linden, this issue's cover story—"Dow Jones: a belt, suspenders and elastic waistband"—is more than an account of Dow Jones' tribulations. It is a study of a business whose very success weakened its decision making. A company that found fame and fortune as an innovator but became afraid of innovation.

James Kaspar

Subrata Chakravarty

Authors Linden and Chakravarty are both Harvard M.B.A.s. Accordingly, they approached Dow Jones as a kind of case study. They saw the company as a fascinating illustration of the interplay between organizations and human behavior. Says Linden, who also authored last issue's cover article on business schools: "Dow Jones was an organization that picked for the top spot people who had been successful as observers and synthesizers but were not entrepreneurs and innovators. This sent a signal throughout the organization, a signal that greatly influenced corporate behavior." Granting all that, Chakravarty confesses to a certain personal sympathy for Dow Jones' overcautious style of decision making. At Harvard he and classmates were tested on their willingness to take risk. Says he: "The professor told me mine was the lowest score he had ever seen." That's a major reason he decided to become a writer rather than a businessman. He'd write about risks rather than take them. Story begins on page 69.

James W. Michaels
Editor

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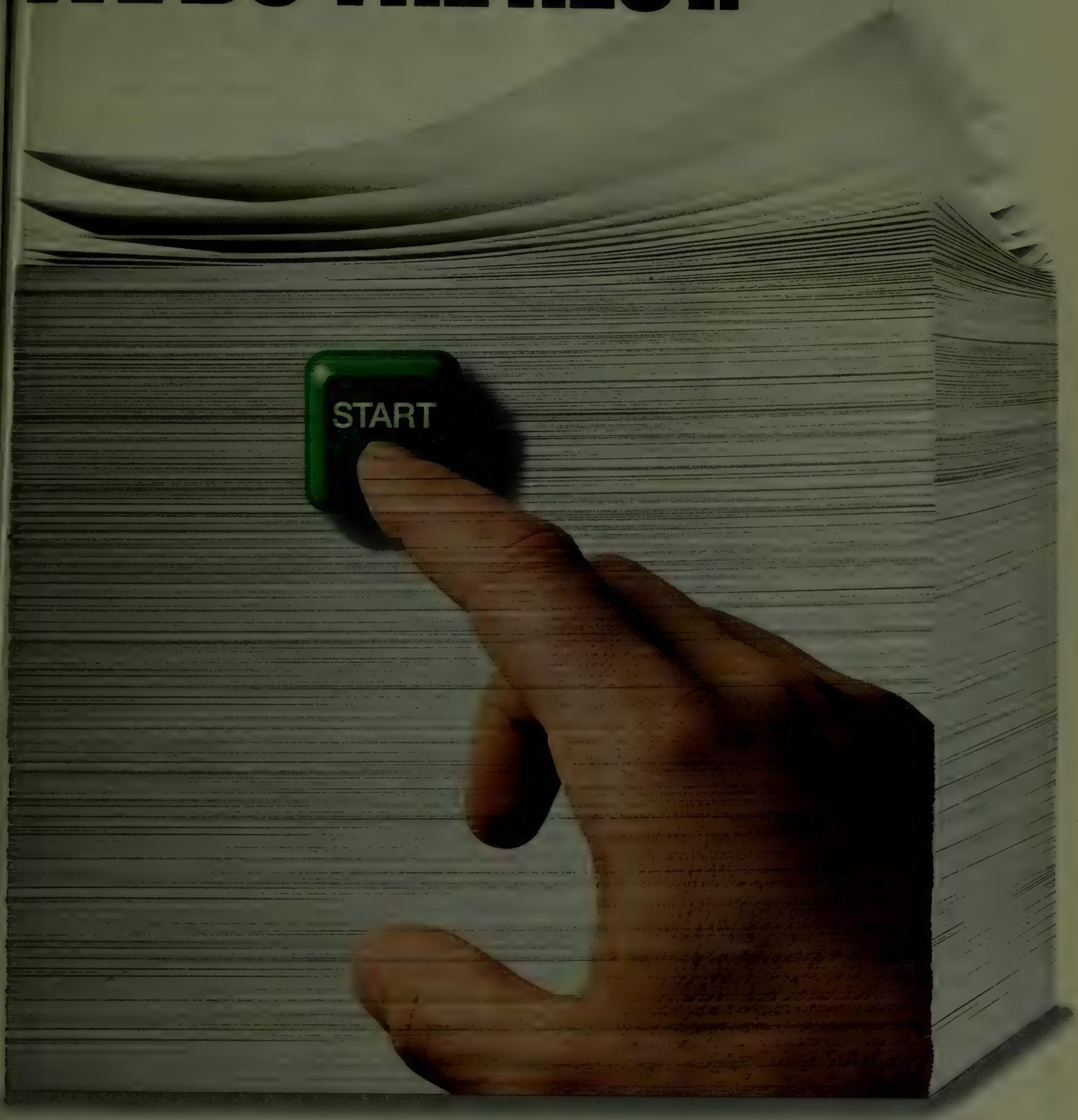

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Thumbs down

IN DECEMBER Walt Disney Co. withdrew an offering of $420 million in zero coupon bonds tied to the success of its network television shows (FORBES, *Nov. 25, 1991*). Disney claims that it can borrow cheaper money elsewhere.

More likely, the offering was killed because potential investors gave it the cold shoulder. The zeros guaranteed an anemic yield of 4%. Bondholders could get an annual return up to 20%, but only if the TV programs involved reached syndication. Not likely. Only 15% of network prime-time shows get that far, and the shows Disney threw into the deal, *STAT, Lenny* and *The Fanelli Boys*, are flops from past seasons. Spinoffs or sequels to hits like *The Golden Girls* were excluded. The Disney name may still be magic, but it can't sell a bad deal.

Kinnerly/Gamma-Liaison

Walt Disney Chairman Michael Eisner
Investors pan its latest bond offering.

Punished

RICHARD GRASSGREEN and Perry Mendel used about $350 million in junk bonds and stock underwritten by Drexel Burnham Lambert to build the Kinder-Care chain of child-care centers. Then they launched an ill-fated diversification into financial services and shoe retailing. The duo often had personal equity in the companies they stuffed into Kinder-Care. And they invested more than $200 million in Drexel junk bonds *(May 16, 1988; Apr. 30, 1990)*.

Now they're getting punished. In November, in a Montgomery, Ala. federal court, Mendel was sentenced to a year in prison for evading taxes on $480,000 he got from Drexel for committing to buy bonds issued in Drexel-backed takeovers. Grassgreen pocketed over $650,000 in stock warrants and commitment fees from Drexel. In December, in federal court in Manhattan, Grassgreen, who cooperated with prosecutors, got three months in jail.

Mendel and Grassgreen at Kinder-Care
Getting punished for past deeds.

Things went from bad to worse after Greengrass sold the Kinder-Care day-care operation in 1989 to raise cash. He was forced out as chairman of the renamed company, Enstar Group, in October 1990. Last May Enstar sought Chapter 11 bankruptcy protection. Under a reorganization plan submitted in December, Enstar's common stockholders would be wiped out. The company is suing Grassgreen and Mendel for unspecified damages, alleging fraud and breach of fiduciary duty. The case should go to trial in Montgomery in March. –GRAHAM BUTTON

Shaved by the bell

WHIZ KID Larry Welch flogged more than $200 million in limited partnerships to build Alert Holdings into the nation's second-biggest security alarm monitoring company. But FORBES heard alarms *(July 22, 1991)*. Denver-based Alert milked its limited partners for fees and overpaid for local security outfits. When Alert began losing money, Welch sold a 30% stake to Pittsburgh billionaire Henry Hillman for $24 million. Last year Hillman forced Welch out.

Too late. In December Alert filed

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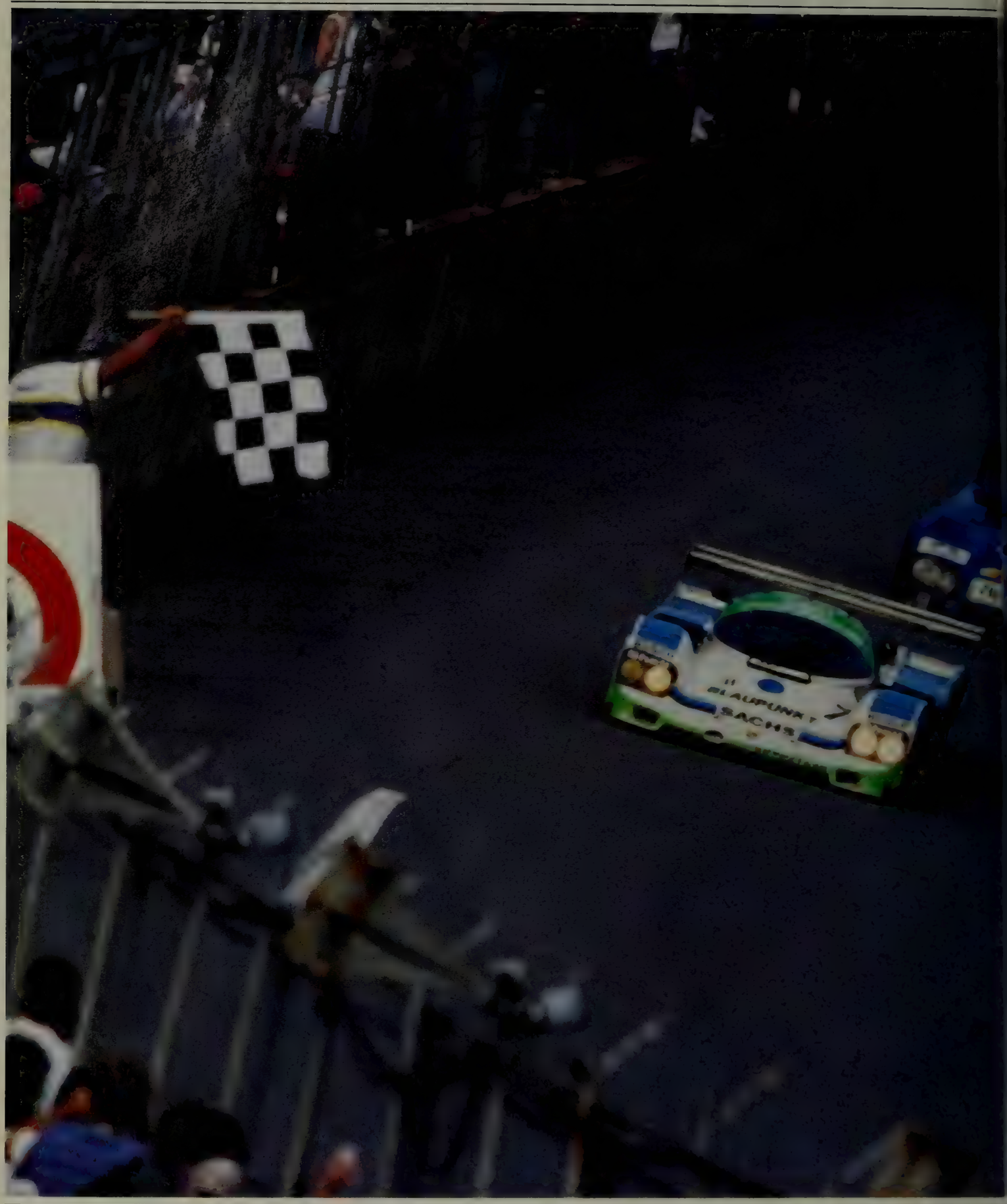
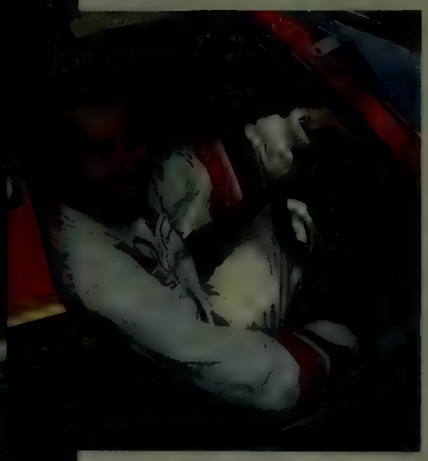


"The difference between this and oth

The Rolex 24 at Daytona.

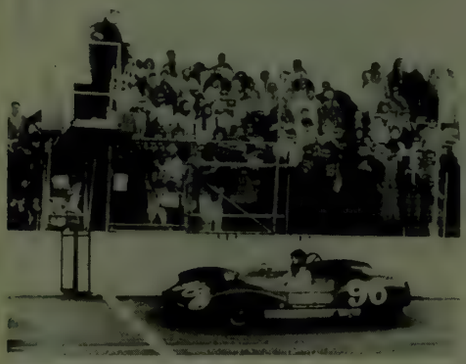


Hurley Haywood has his name engraved a record five times on the Rolex Cup.

It is a race like none other in America. A place where names like Foyt and Gurney are legend. The ultimate proving ground where for 24 straight hours they battle the road, the fatigue, the elements, and each other. This is not just another Sunday afternoon at the track. This is where exotic V-12s duel with full-bore V-8s in the heat of the day and through the solid black wall of night.

Then it starts to rain.

But the true storms at The Daytona International Speedway have raged not in the skies, but down on the track. In 1962, after his engine failed, Dan Gurney nursed his winning Lotus across the line on the power of his starter motor, much to the crowd's delight. The mid-sixties saw classic duels between Ford and Ferrari, with Ford's prototypes puncturing Ferrari's domination with wins in 1965 and 1966, only to have Ferrari's 330 P4s come back for revenge in 1967. And then it was Porsche's turn, with drivers like Peter Gregg and Hurley Haywood dominating the next two decades at Daytona.



Dan Gurney awaits the checkered flag in 1962.

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Hurley Haywood

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for bankruptcy protection. Alert, Welch, President Glen Barnard and Hillman are being sued by investors in four class-action suits. To raise funds for expansion, allege the suits, the insiders misrepresented the company's prospects and promised unattainable 14% annual dividends.

Welch calls the charges "totally untrue" and blames Alert's downfall on the credit crunch. The enterprising financier has moved on, raising $9 million in private money for Santa Barbara-based CleanAir Transit, a maker of electric buses; Welch may earn up to $1.3 million in fees. This guy's battery never seems to run out.

Changing the sheets

FIELDCREST CANNON may be poised for a turnaround under Chairman James Fitzgibbons. His predecessor, Joseph Ely II, 53, guessed wrong on raw material prices *(Dec. 12, 1988)*. He also overpaid for Cannon Mills, a moneylosing maker of cheaper towels

Fieldcrest Cannon's James Fitzgibbons **Washing away his predecessor's mistakes.**

and sheets, and Bigelow-Sanford, the carpetmaker. Fieldcrest lost $38 million in 1990 and the NYSE-listed stock fell 75%, to below 6.

Fitzgibbons closed the unprofitable electric blanket business, taking a $31.5 million writedown. He laid off some 1,700 employees, got rid of lower-margin sheets and towels and cut production. Through the third quarter of 1991, Fieldcrest earned $735,000 from operations on sales of $869 million. The stock is back to 13½, and with cotton prices falling and Fitzgibbons concentrating on the core bed and bath division, the future looks bright. Wheat First analyst John Baugh reckons Fieldcrest will earn $10 million this year on sales of $1.2 billion. —AMY FELDMAN

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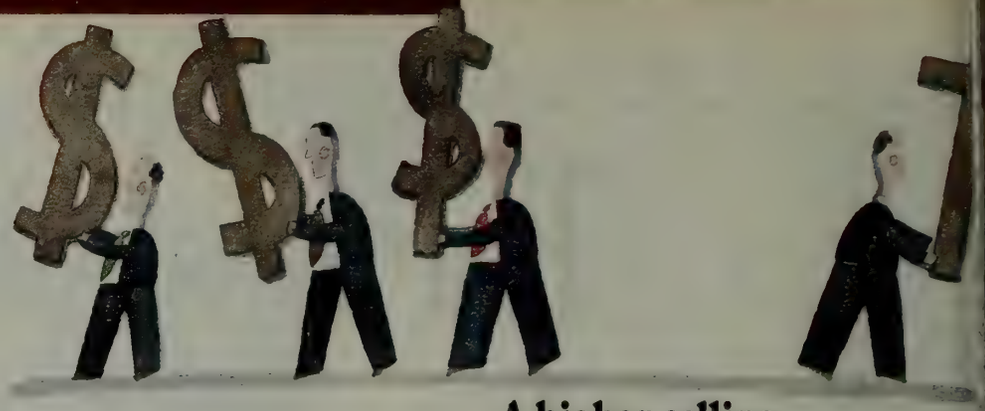

Like father, like son

JONATHAN STEINBERG, the 27-year-old son of dealmaker Saul Steinberg, is more in the news than his 52-year-old father. The younger Steinberg runs investment tip sheets. In December he raised $3.9 million by selling units of his company, Financial Data Systems, to the public. The company consists of three sheets his father helped him buy starting in 1988; one, *Individual Investor* magazine (circulation 54,000), was formerly the *Penny Stock Journal.*

These are tough times in the publishing industry but glorious times for people selling new issues. Right off, the prospectus tells investors that the price of the units is not necessarily related to Financial Data's net worth or assets but was arbitrarily set by the company and its underwriter, G.K.N.

Mark Seliger

Jonathan Steinberg

Securities of New York. G.K.N. offered 405,000 shares at $9 a share, leaving Steinberg and other inside investors with 58% of the stock. What does the public get for its money? A business with revenues of less than $1 million and a negative net worth of $2.4 million in 1991. For its fine underwriting efforts, G.K.N. earned at least 13% in fees.

Where's the public money going? Not to expand the business. Most of it is going to shore up the company's working capital and repay loans from backers, including young Steinberg's mom, Barbara Steinberg, and brother-in-law Jonathan Tisch, president of Loews Hotels.

But never mind. Financial Data's units sold quickly in the aftermarket, rising to 11 before settling recently at 9¾ over-the-counter. Among the major buyers were Saul Steinberg's publicly traded insurance holding company, Reliance Group Holdings.

–MATTHEW SCHIFRIN

Forgotten but not gone

SHAREHOLDERS and bondholders lost their shirts investing with Gene Phillips and William Friedman, the real estate sharpies whose conglomerate Southmark went bust in 1989. But the doubtful duo managed to hang on. They're still general partners at National Realty, a public partnership they trashed in a 1987 rollup. But, yes, Virginia, there is justice sometimes. Under an agreement with National Realty unitholders, Phillips and Friedman are scheduled to be ousted as head honchos this May, if units continue trading below 57. Given recent prices, this seems fairly likely.

Lose their spot at National Realty and they would lose the juicy fees they charged to manage the partnership's real estate into financial crisis. Example: Payroll, general and administrative expenses at the partnership have more than doubled, from $6.1 million in 1987 to $14.1 million in 1990. And in 1989 and 1990 alone National Realty paid $6 million to affiliates—meaning you know who.

But you haven't heard the last of these boys. For pennies on the dollar, they are quietly buying National Realty units. A possible aim: a majority stake, so they could vote themselves back in as general partners. With affiliates, they now hold nearly 30% of outstanding units.

National Realty's unit price has slumped to 12; adjusted for reverse splits, that's roughly 60 cents a unit, down from 10 when the rollup occurred. Nice game if you can play it. You mismanage a business almost into insolvency, then buy its assets cheap when it goes under.

–GRETCHEN MORGENSON

A higher calling

FEW OF WALL STREET's refugees have switched as far afield as Theodore Coburne, 38. Until last June he headed the global equities group at Prudential Securities. Now Coburne's at the Harvard Divinity School.

"It was as if I had seen a ghost," he says, describing his new calling. But he still has to pay his school bills, so he sits on the boards of two mutual funds as well as several small companies including Sage Analytics International and Premiere Radio Networks. Coburne's focus at Harvard is adolescent spirituality and value formation. Can it be that he learned about adolescent values while dealing with his peers on Wall Street?

–LISA GUBERNICK

Shorts' shrift

SHORT-SELLERS got another bloody nose from the recent market rally. The average short account ended the year down more than 30%, estimates Michael Long of Rockbridge Partners in Charlotte, N.C. Combine losses and withdrawals, and Long reckons that the total amount of money invested with short managers has plunged from $3.5 billion in late 1990 to $1.7 billion now.

Shorts'

losses range from very little to one professional short-seller who lost 58% on the year. "Small managers did better than the larger guys," says Long. Worse is to come. Because short-selling partnerships get paid 1% of assets under management, plus 20% of what they make *after* they have made up their losses, unless these managers have a great 1992, many will probably wind up earning no fees for last year or this. –G.M.

Europe to the rescue

IS THERE NO GOOD NEWS from autoland? There's a little. Saab, the Swedish carmaker GM owns half of and now runs, broke into the black in November and December after years of heavy losses. GM expects Saab to make money in 1992, mostly thanks to closing plants and downsizing. Saab, counting the purchase price and its share of the losses, has cost GM about $1 billion to date.

Ford vows its European operations will be profitable this year, too. Ford's European sales were at record levels in 1991, but in the red anyway. One move is purely accounting—separating loss-making Jaguar from the European division's books. More important is severe cost-cutting. Exports to the Continent from Ford's U.K. plants will increase—a big help since the British market, Ford's bastion in Europe, is so weak.

–JERRY FLINT

The Gabelli tapes

MUTUAL FUND MANAGER Mario Gabelli recently sent his shareholders a videotape of himself pomposing at length about value investing. Some investors were encouraged by his prediction of a 7000 Dow by year 2000. One even thought he should become a movie star. But contrarians wondered whether all this public imaging wasn't a waste of money and a sign that Gabelli has begun to take himself too seriously as an investment celebrity. To paraphrase, hubris often goeth before a fall.

–JASON ZWEIG

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Si, hablamos español

SIR: Re "No habla español" *(Dec. 23, 1991)*. Spanish-language TV ad revenues have grown by double digits over the prior year even in today's sluggish economy. You didn't mention that the big three networks have posted heavy losses. If the Hispanic market is indeed struggling to prove its viability, why are HBO, ESPN and the Family Channel now creating programming for Spanish-speaking viewers?

The vast majority of Spanish-speaking Americans retain their native language and culture while they acculturate to life in the U.S. The term "Hispanic" is a demographic definition of peoples from more than 20 nations who now reside in the U.S. and for whom the Spanish language is a common denominator. Therefore, the implication that an Argentine cannot understand a Puerto Rican or a Mexican is resolutely inaccurate.

–W. GARY MCBRIDE
President-Network
Telemundo Group, Inc.
New York, N.Y.

SIR: CBS made the decision to launch the CBS Hispanic Radio Network early in 1990 because we believed that the Hispanic segment of our population was growing, viable and interested in receiving the kind of specialized programming that we had to offer. Now, two years later, we still believe that to be true.

–NICHOLAS R. KIERNAN
Vice President and General Manager
CBS Hispanic Radio Network
New York, N.Y.

SIR: Quotes from our conversation were taken completely out of context. My "conscience money" comment was used to refer to the small and declining number of advertisers who have yet to appreciate the business value of advertising to the important, responsive and unique Hispanic consumer market.

–ASHLEY SHOMAKER
Publisher
La Familia de Hoy
Knoxville, Tenn.

Pepsi targeting the Hispanic market
Hispanics are receptive.

Deceptive TV

SIR: Re "TV's killer businessmen" *(Dec. 23, 1991)*. The Lichters and Dr. Rothman ask why are 90% of the murderers on television white "generic north Europeans," as opposed to the reality that half of all killings are committed by blacks. Are they kidding? Have they never heard of pressure groups, picketing, mass boycotts, etc.? Television is run by cowards who dread bad publicity as much as they dread losing their jobs, since the one often leads to the other.

Some years ago I worked on a series in which, after the usual hair-raising battles with the Standards and Practices censors, we were driven to the comical expedient of creating an all-Czechoslovakian mob of gangsters. They got into a gang war with rivals who were each named after a different variety of hog. We figured, accurately enough, that neither the Czechs nor the hogs would picket ABC, but the Italians sure might.

–EUGENE PRICE
Putney Mountain Productions, Inc.
Putney, Vt.

SIR: Businessmen must hit television where it hurts: Withdraw advertising from antibusiness programming. Then we will see if profit is as evil in the networks' reality as it is in their fiction.

–SCOTT M. HOLLERAN
Glendale, Calif.

Tax break

SIR: Re "One measure that will do little good" *(Fact and Comment, Jan. 6)*. The investment tax credit has helped many businesses take the leap into more or better equipment. It can be a valuable consideration at tax time.

–MICHAEL D. OCHOA
President
Precision Technology Corp.
Woodinville, Wash.

The whole story

SIR: I was the CEO of the Work Wear Corp. for over 25 years ("Mercy killing," *Dec. 9, 1991*). "Mercy killing" leads to an erroneous conception. The fact is that due to their ineptness in dealing with people, and their inability to operate a manufacturing business, the company was literally "raped" by PaineWebber. They charged interest on loans of 4% over prime, where Work Wear had never before paid more than prime or LIBOR. They charged fees and commissions for sales of assets by management. They granted ridiculous severance deals in order to rid the company of longtime, valuable employees.

I declined being on their Board of Directors, knowing the debt burden was beyond the company's ability to handle. When PaineWebber went into this deal it was not a "bad deal."
–LEIGHTON A. ROSENTHAL
Cleveland, Ohio

Harmful effects

SIR: Re "Just smoke" *(Dec. 23, 1991)*. I was the Surgeon General in 1971, when the label requirement was changed to "Warning: the Surgeon General has determined that cigarette smoking is dangerous to your health." I was assured by the government lawyers involved that providing immunity from lawsuits was not Congress' intent. Two decades later it is appalling that a public health measure, fought every step of the way by the companies involved, can be twisted to provide them legal succor.
–JESSE L. STEINFELD, M.D.
San Diego, Calif.

More to it

SIR: Re "Sucker bait" *(Dec. 9, 1991)*. I was dismayed to find our company described as "sucker bait." We have worked to create earnings from operations, not from R&D partnerships, research contracts or interest. We have reported 32 consecutive quarters of increased revenues and have profits in excess of $1 million.
–RICHARD A. SANDBERG
Chairman and Chief Executive Officer
Dianon Systems
Stratford, Conn.

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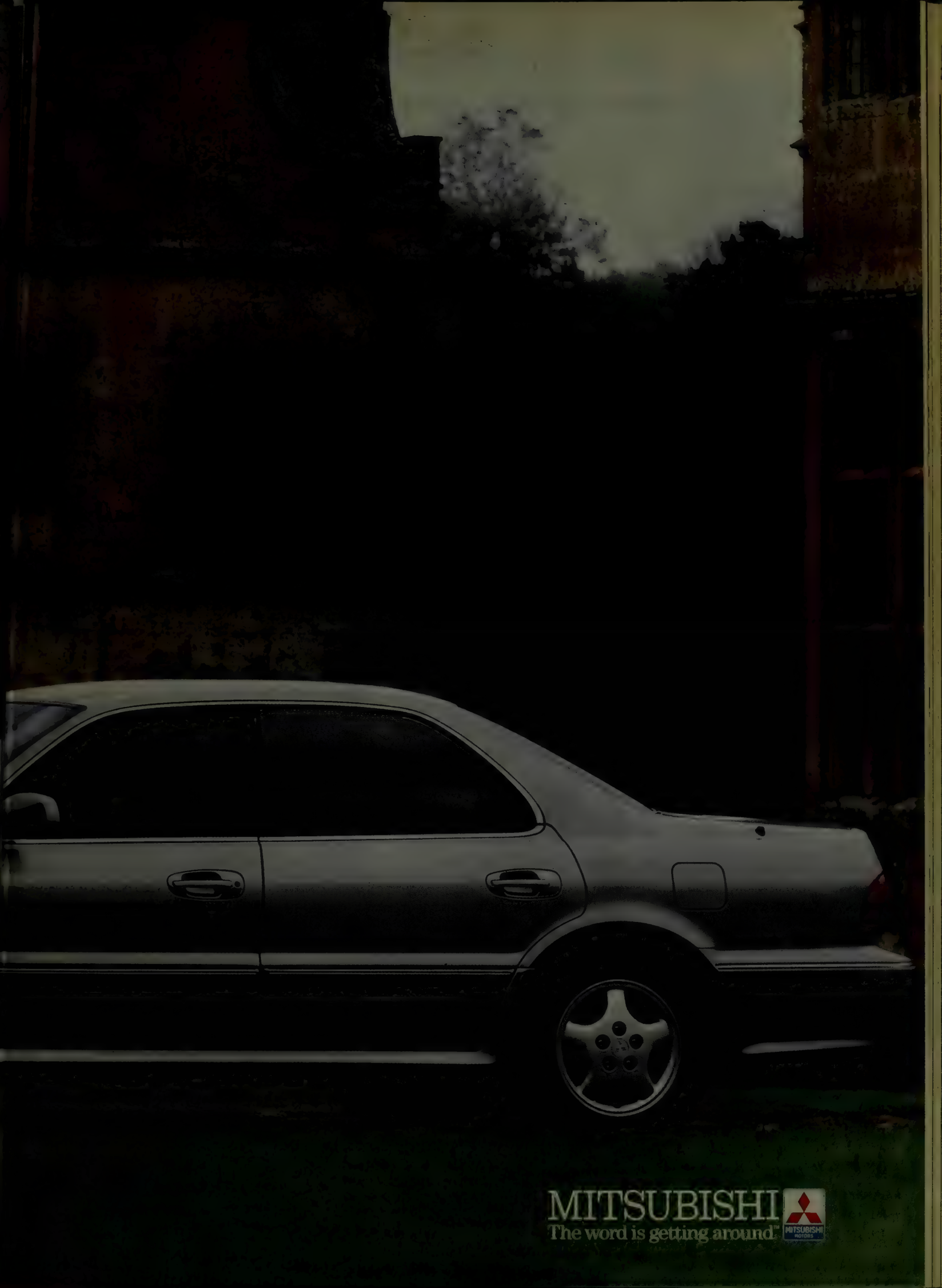
*Optional equipment. Model shown Diamante LS.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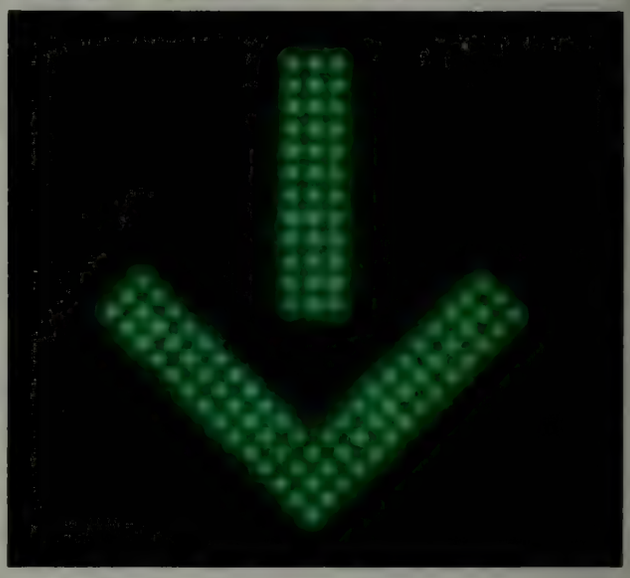

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"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

COMPOUNDING RUSSIA'S ECONOMIC FLOUNDERINGS

is toxic Western advice. The IMF wants Moscow to sharply raise the price of fuel, as well as take other belt-tightening measures, to help revive the ruble.

This arsenic will kill the patient, not cure it. Additional austerity won't resurrect the ruble. The average Russian is now making the equivalent of less than 2 cents an hour. How can you have a market economy if no one has money?

What should we advise Moscow? That it fix the ruble to the dollar at a rate of, say, R3 to $1 (it is now 300 to 1) and back this ratio through asset sales. The government owns just about everything, including all oil and gold. The U.S. used a similar solution—in that case, pledging and selling public lands—200 years ago to turn the dollar from the world's weakest money to its strongest.

What is happening now in Russia is not free-market economics. It is madness.

BACK TO BASICS: LOWER RATES = MORE REVENUES

THE CASE FOR cutting taxes as a means of reviving the economy *and* reducing the deficit is overwhelming.

On capital gains the evidence clearly shows that the more reasonable the rate, the more the government makes. In 1978 the highest levy was reduced from 48% to 28%. Receipts went up each subsequent year, an impressive feat considering that the recession of the early 1980s makes the current downturn look mild.

In 1982 the rate was cut again to a maximum of 20%. Federal collections nearly quadrupled over the next four years. But the levy was raised in 1987, and receipts have not reached the 1986 peak.

Year	Taxes paid on capital gains income (in mil)	Year	Taxes paid on capital gains income (in mil)
1977	$ 8,104	1984	$21,800
1978	9,104	1985	26,500
1979	11,669	1986	49,700
1980	12,459	1987	32,900
1981	12,684	1988	38,300
1982	12,900	1989	36,020
1983	18,500	1990	NA*

*Not available until July 1992.
Source: U.S. Department of the Treasury.

HEALTH CARE COST CRISIS CROSSROAD

SPIRALING MEDICAL BILLS and fears of losing employer-paid insurance will make health care a major emotional issue for the '92 elections. That's why President Bush will make a health care proposal in his State of the Union address. There are only two ways to go: socialism or consumerism.

Some advocate Canada's national health care system; the government pays for and controls just about everything. All European countries have some form of socialized medicine.

Others recommend "play or pay": If a company doesn't offer minimal insurance, it pays a big tax to a government pool that insures the uninsured.

But nationalized medicine has serious, largely unpublicized flaws. Play or pay would be a way station to a Canadian-style system: Politicos would up the minimums; taxes would go up; premiums would go up; a government takeover would become inevitable. Moreover, insurance costs would crush small businesses and would spur employers to discriminate against hiring seemingly unhealthy workers or those with large families.

Mike Goldwater/Network-Matrix

English hospital: Socialist medicine means shopworn facilities.

The nonsocialist alternative: Apply free-market economics to the medical market. *(For a varying view, see* Commentary, *p. 35.)*

The U.S. villain is how we finance medical care (a flaw which play or pay would perpetuate). Bills are paid by insurers or the government; in turn, most health insurance premiums are paid with tax-subsidized dollars by employers for employees. Oblivious to price, consumers rarely "shop" for medical insurance or health care as they do for houses, cars, computers, clothes. Not surprisingly, costs spin out of control. Result: increasingly complex price and operating controls.

The consumerism alternative is simple. Give medical insurance tax breaks to individuals rather than to busi-

nesses. Let people pay premiums directly. One would receive a tax credit, the size of which would depend on income and need, to help cover the premium. Insurance could thus be universal.

Instead of insurance companies, employers and government bureaucracies trying to police a $750 billion market, tens of millions of consumers would do the job. They would stimulate lower expenses and less costly innovations. Many people would not file small claims, preferring to take a big deductible and pocketing the money saved on a smaller premium. Countless billions of dollars in paperwork and processing costs would thereby be saved. (Imagine what would happen to auto-insurance rates and paperwork if a claim were filed every time the oil was changed or the tires rotated.) Fraud would be reduced. Hospitals and other health care providers would put together attractive packages to win customers. One could actually learn what an operation would cost in advance.

The price of cosmetic surgery hasn't ballooned the way other surgical procedures have because it is rarely covered by insurance. In England the same process works with elective operations at private hospitals—the consumer knows who's paying the bills.

The much touted virtues of the Canadian system and other forms of socialized medicine are overblown: 250,000 Canadians are on waiting lists for operations. In Britain the number is 1 million. As you would expect under a socialistic system, health care is rationed. In British hospitals, for instance, patients over age 65 are usually denied kidney dialysis treatment or kidney transplants.

Socialism doesn't contain costs. Astonishingly, medical bills per capita are rising more rapidly in Canada, Europe and Japan than in the U.S. Nationalized medicine crushes innovation. Most advances come from the U.S.

Critics claim that Americans aren't smart enough to buy their own health insurance. But you no more have to be a doctor to purchase a policy than you have to be a mechanic to buy a car. In a free market, insurers and medical providers would make an effort to educate consumers about what kinds of packages to buy. Individuals who don't want to be bothered would simply buy through their employers or a group such as a labor union.

WHY ARE WE TWIDDLING OUR THUMBS?

After World War II, the U.S., Britain and the Soviet Union recruited German scientists for their nascent aerospace programs. Wernher von Braun, father of our man-to-the-moon effort, was the most celebrated example.

Why don't we make an effort to find and bring over key physicists, chemists and engineers of the former Soviet Union, instead of letting them be hired by the bad guys of the world such as North Korea and Iran? The technology revolution, symbolized by the computer chip, is in its early stages; American businesses, universities, research laboratories all need more first-class brains.

We might also employ some of these human assets for rapidly developing and deploying effective antiballistic missile systems. As missile knowhow becomes more common, rogue regimes and terrorists could more easily harm us. It is almost criminal that we are not doing more to defend against this soon-to-come actuality.

THE WORLD IS A DARKER PLACE

American journalism and economics lost a giant a few weeks ago with the death of Warren Brookes, syndicated newspaper columnist who also did occasional articles for Forbes. He was unusual in many ways. His prolific writing was never tired, stale or bland. He never wrote about a subject unless he had a new angle or new facts to add to it. And he never forgot the human dimension of the economy.

Sharon Brooks/Washington Times

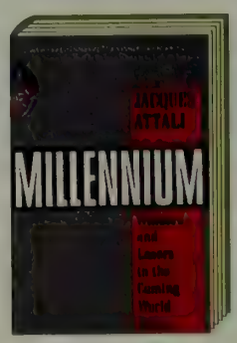
His judgment was extraordinarily sound on such issues as taxes and trade. He helped expose Charles Keating's nefarious behavior. He unmasked fraud in federally funded science programs. He courageously disclosed the damaging excesses and errors of extreme environmentalism.

He was a warm, gracious man of rock-like integrity.

Truth has lost one of her brightest lights.

MUTANT AMERICANS

Millennium—by Jacques Attali (Times Books/Random House, $17). A slim, pretentious, wrongheaded book of high-tech Marxism and apocalyptic environmentalism by a French socialist. Attali was a close adviser to French President Mitterrand and now runs the newly created European Bank for Reconstruction and Development that is supposed to provide help for the shattered economies of the continent's formerly communist countries.



America is declining, says Attali, and the only question is whether the new "center" will be Europe or the Pacific. He looks to governments and powerful global institutions to manage and guide the world. Free markets can't be trusted: They're trashing the globe and making us a bunch of too selfish consumers. Attali doesn't see much hope that the U.S. will pull itself up: "These distressing developments are rooted in a profound cultural mutation—the cult of immediate gratification, the lack of internationalism, of social solidarity. For a rejuvenation to work, the U.S. must become a Spanish-speaking nation."

While Europe and the Pacific prosper, Attali sees the rest of the earth's multiplying billions staying mired in poverty. This, of course, is simply a rehash of Karl Marx's 19th-century humbug that the capitalist elite will get richer while the proletariat is crushed evermore. ■

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Other Comments

Sour Aftertaste

"SOME Japanese say, 'If U.S.-Japan relations go sour, we can always go back to Asia,' " says Yukio Satoh, a senior Foreign Ministry official. "There are no Asian countries that would welcome a Japan that left the U.S.-Japan alliance."
–*Wall Street Journal*

As the Media Go . . .

THE STOCK MARKET is clearly predicting that an economic recovery is coming sometime this year. The strength of share prices of economically sensitive companies is especially impressive. The stock market's optimistic economic forecast is supported by some recent contrary indicators.

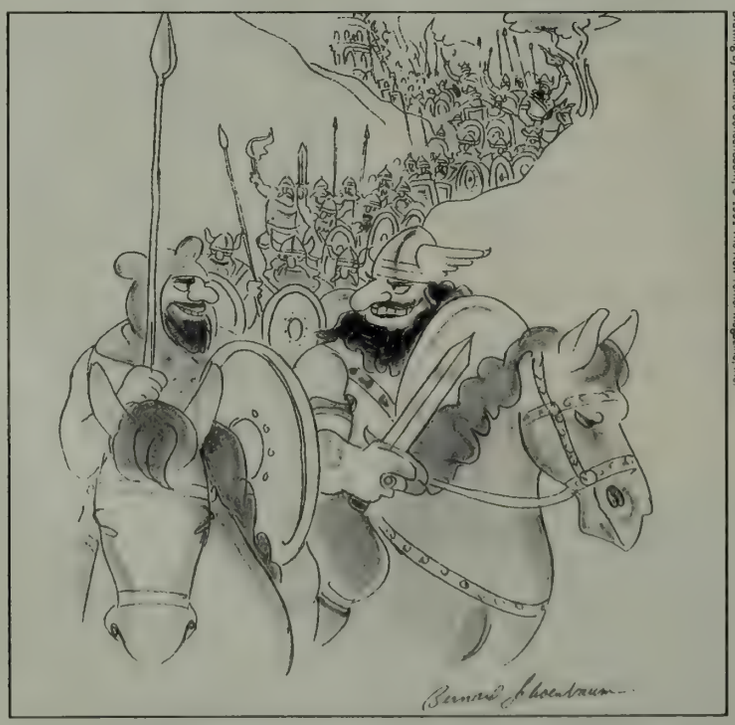
For instance, the front cover of the Jan. 13 issue of *Time:* "The Recession: How Bad Is It? And What Gives on Wall Street?" The cover picture shows a man selling apples on the street. The cover story of the same week's *U.S. News & World Report:* "Is Your Job Safe?" And the latest *Newsweek* includes a story titled "The Glooming of America: A Nation Down in the Dumps." When the media finally get around to giving top coverage to an economic problem, more often than not the worst is over.
–DR. EDWARD YARDENI, chief economist, C.J. Lawrence, *Weekly Economic Analysis*

It is dangerous for a national candidate to say things that people might remember.
–EUGENE MCCARTHY, unsuccessful candidate for President, 1968 and 1976

Jobs and Security

UCLA's JAMES Q. WILSON says that much of "the underclass problem arises from the incomplete and increasingly difficult task of socializing some males." In all societies, says Wilson, men are more likely than women to play roughly, drive recklessly, fight and assault. Those behavioral differences have a biological basis. Those [male] traits are ruinous in today's cities.

Wilson suggests two concrete measures—better security, and boarding schools for fatherless children. Take back the streets. He advocates public and private policing to give the poor something like the protection the rich give themselves in guarded high-rises. Put checkpoints at all public housing to disarm the armed. The boarding schools should aim to send students to colleges or apprenticeship programs. The best hope is for policies that will help produce more employable males.
–GEORGE F. WILL, *Newsweek*



Drawing by Bernard Schoenbaum, © 1991 The New Yorker Magazine, Inc.

"This should jump-start the economy."

Competition's the Key

IN ALMOST EVERY country with national health insurance, disinterested, knowledgeable observers agree on the need for substantial reform. For example, Claude Castonguay, considered the father of national health insurance in Quebec, now recommends the establishment of private health care centers to compete with public ones and a voucher system to encourage competition among suppliers. Even Sweden is searching for ways to introduce the disciplines of the competitive marketplace into its public system.
–JOHN C. GOODMAN and GERALD L. MUSGRAVE, *20 Myths about National Health Insurance*, National Center for Policy Analysis

New Nadir

AT 11:37 in the morning of Nov. 16, I lost faith in New York City. In that moment of epiphany, I realized the corrosion of our civic character, the profanation of our public life, the very reversal of our evolutionary ascent. Yes, I walked down the block to an empty space where I had last parked my car.

Once this was the city of criminals with mythological dimensions, criminals with felonious élan—Boss Tweed, Dutch Schultz, Frank Costello. Now we have the anonymous underachiever who stole my 1979 Chevy Malibu wagon with 148,800 miles and a carburetor inclined to flooding.
–SAMUEL G. FREEDMAN, *New York Times*

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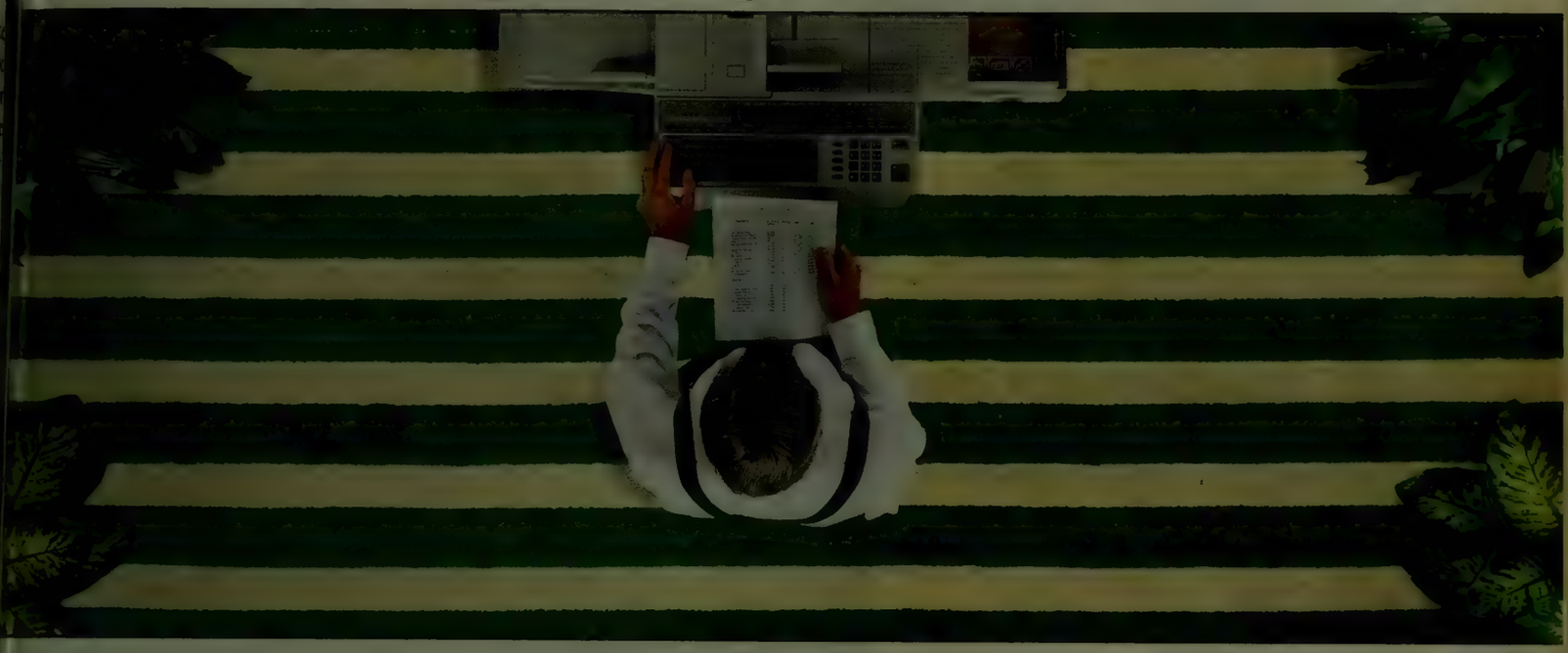

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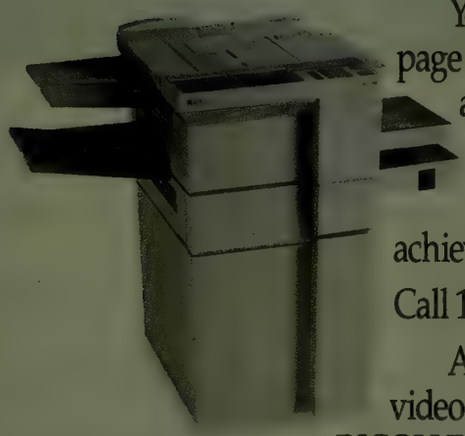

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36 USC 380

NEW ENGINE, NEW TRANSM
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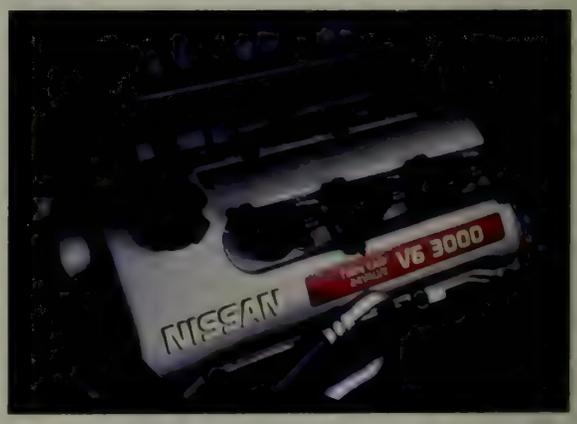
That night the engineers at Nissan quietly celebrated.

And took pleasure in the knowledge that the press hadn't, well, seen anything yet. For that same month the new 1992 Maxima was launched. A car our engineers had completely reexamined, revamped, and retooled, literally from the ground up.

One glance at the 1992 engine and you immediately detect a perfectionist mentality bordering on the obsessive. For there lies a new 3.0-liter, 24-valve DOHC V6 multi-point, fuel-injected variable valve timed engine.

The new 1992 Maxima SE shown in Super Black with optional ABS brakes, driver's side airbag and four-speed automatic transmission.

Like our legendary Z,™ the Maxima SE's new 3.0-liter, 190 hp 24-valve DOHC V6 engine features a variable-induction dual plenum system on the 5-speed which utilizes an intermediate valve to regulate air intake flow for better performance at low to mid-range RPMs.



*†All-new fully electronic automatic transmission. *Source: Car and Driver 11/91 versus 9/91. For more*

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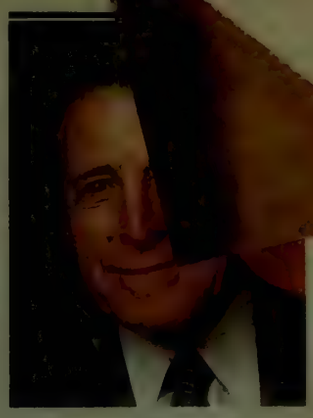
Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

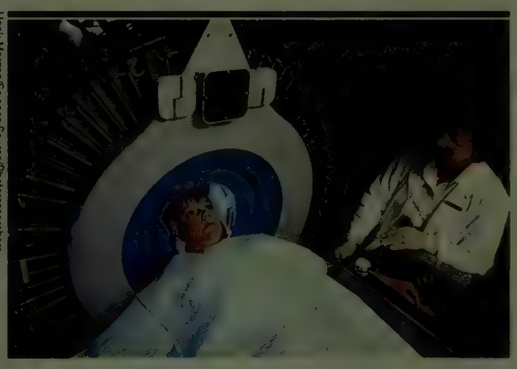


HEALTH CARE FOR ALL—WITHOUT GOVERNMENT CONTROL

THE COMBINATION OF a presidential election and legitimate calls for less expensive health care for all—including the 31 million to 36 million Americans currently uninsured—will produce some extremely undesirable proposals. Here is a set of suggestions that could accomplish the main objectives without involving the federal government in the follies of full national health insurance.

All employers would provide health insurance to all employees. The self-employed would be required to secure their own insurance, much as they now pay their own Social Security. The federal government would be required to provide health insurance for the unemployed, much as it now helps fund unemployment insurance.

The critical factor in this plan is that *all* this insurance would have to be secured from *private* insurance companies. The fact that there would be more companies competing, coupled with the enormous increase of those insured (literally the whole population), would guarantee that the cost of comprehensive insurance would be far lower than it is now. And that would be good news for the American economy, because one of the principal factors that make our automobiles so expensive to produce is the ever rising cost of medical care for each employee paid for by employers.



Hank Morgan/Science Source/Photoresearchers

$3 million PET scanner: High cost of high tech

The federal government's role would be limited to certifying that the insurance is sufficiently comprehensive and that the companies providing it are found to be financially sound by state authorities. There would be no mandate for specialized coverages. Those could be arranged by private negotiation, if desired.

This program would be vastly less expensive for both federal and state governments than the present enormously costly hodgepodge of systems. It would also serve our senior citizens and others far better than the expensive Medicare and Medicaid systems. And, since private insurance companies would have a strong interest in not making unnecessary payments, there would be real market incentives to reduce costs in all ways. Of course, *necessary* medical and hospital care claims would have to be paid if insurance companies wished to stay competitive, and some co-payments would be desirable to discourage overuse.

Readers may hear some familiar echoes in this proposal because it is basically the plan I advanced when Secretary of Health, Education & Welfare in the 1970s. That plan was derailed when the attention of the chairman of the relevant House committee focused on other objectives. Up to that point, it had begun to attract support from industry, much of which was providing insurance for its employees; from unions, whose members would, of course, benefit; and from the insurance industry itself.

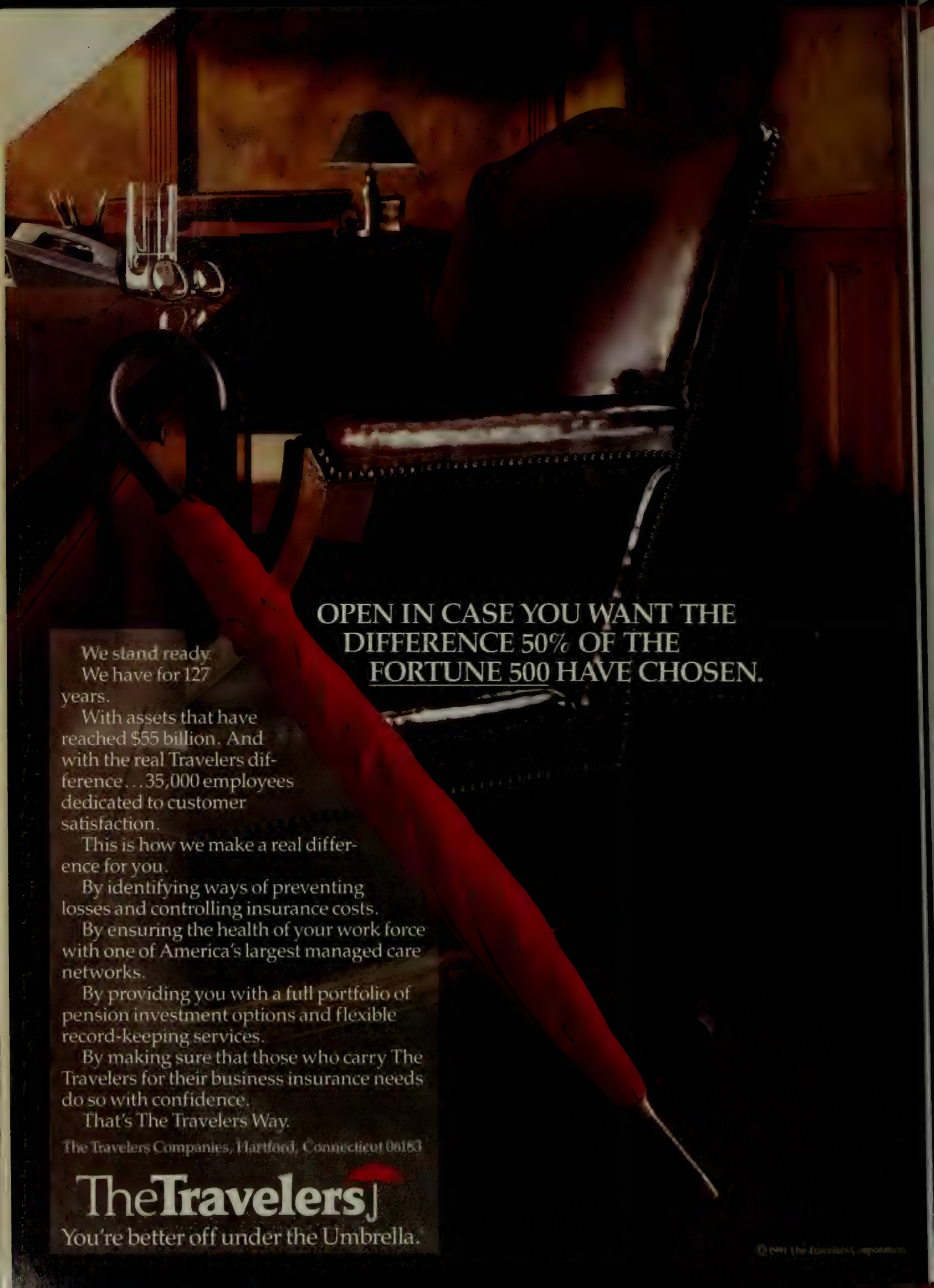
Most were attracted by the federal government's minimal role contrasted with either a Canadian- or British-style approach or the full national health insurance proposals of Senator Kennedy and others. Under their plans, the federal government would be in complete charge of health care, and all doctors, hospitals and other providers would work virtually full time for the government.

Another useful reform—which the Administration is reported to be sponsoring—would be to reduce the huge additional costs resulting from the ever growing number of malpractice suits. We should eliminate or sharply curtail contingent fee contracts that induce lawyers to generate a great many of these suits. Doctors feel compelled to order many unnecessary, expensive procedures to protect themselves from this type of litigation.

Obviously, this is but the barest outline for a bold and far-reaching proposal requiring much study, analysis and refinement. But it seems to me that with the features of universal coverage, minimal government involvement, and heavy reliance on the private sector and market system, it is a far better approach than simply having the government provide, manage and pay for health care for all.

We need to keep the best of our existing standards of medical care and extend it to all citizens without turning to the government to pay for and control the whole system. But we also need to reduce the veritable hemorrhage of medical costs. In 1992 the U.S. will pay $817 billion, or a record 14% of our GNP, on medical care.

This proposal could, I believe, help us achieve all of our objectives at much lower cost. ■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Heads Japan wins, tails Japan wins

LARGELY IGNORED during President Bush's recent trade mission to Tokyo *(see p. 40)* is a large shift in Japan's trade accounts. Last year, for the first time in a decade, Japan's exports to Asia surged past shipments to the U.S. Japan's exports to Asia in 1991 totaled an estimated $103 billion, versus $91 billion in total exports to the U.S. The gap is expected to continue to widen.

C.H. Kwan, senior economist in Nomura Research Institute's Asia Pacific Research Department, calls Asia a kind of "built-in stabilizer" for Japanese exports. Most countries experience a relative fall in exports when their currencies strengthen against those of their trading partners. But Kwan's research shows that as the yen appreciates, the resulting weakness in exports to the U.S. and Europe is offset by rising exports to the Asian "NICs," the newly industrialized countries—South Korea, Taiwan, Hong Kong and Singapore.

The stabilizing mechanism works like this: The currencies of the NICs are all to some degree pegged to the U.S. dollar, and they all export much the same goods as Japan (TVs, VCRs, computers and the like). So when the yen strengthens, the NICs' exports to the U.S. and Europe tend to rise because they become more price competitive with Japanese goods. This raises the NICs' growth rates and so their demand for capital equipment and intermediate goods used in manufacturing.

The bulk of these goods come from Japan, a trend that will increase as Japanese direct investment in these countries increases. Because there is little competition facing Japan in these markets—American capital goods producers are more focused on Europe—the net result of a strengthening yen is to increase Japan's earnings from these exports.

There is a lesson in this for Congress as some of its members begin to beat up on Japan. The lesson: Japanese companies blocked from exporting directly to the U.S. can now just shift production to other Asian nations, and export from there. —ANDREW TANZER

Look to the NICs

Japan's exports to Asia are now larger than to the U.S. and counterbalance the fall in Japan's shipments to the U.S. that results from the yen's appreciation against the dollar.

Why not index U.S. government borrowing?

TREASURY SECRETARY Nicholas Brady recently told the House Ways & Means Committee that he is considering dropping the 30-year Treasury bond for a while as a tool of government finance. Here's a better idea: Why not switch to indexed bonds pegged to inflation, as the Thatcher government did in Britain in the early 1980s? The British problem then was the same as the one facing the U.S. now (and for the past decade), though writ large: Very high real—i.e., inflation-adjusted—borrowing costs.

What the British did was issue bonds carrying very low real interest rates (roughly 2% to 2.5%) at maturities of up to 40 years. By indexing them to inflation, the risk factor normally built into long bond rates was eliminated. That reduced the government's cost of borrowing, and gave government as well as the governed cause to fear inflation.

The beauty of these index-linked bonds, or gilts, as the Brits call them, is that "if interest rates fell because inflation fell, these things wouldn't cost [the government] anything more," explains Steven Bell, chief economist at London investment bank Morgan Grenfell, who was working at the U.K. Treasury at the time.

The idea of issuing indexed bonds was floated in the U.S. Treasury in the early 1980s, when the U.S. was still issuing 30-year bonds with 13% or higher coupons. But the idea was rejected, mostly because of objections from dealers in government securities. The status quo was highly profitable for the dealers.

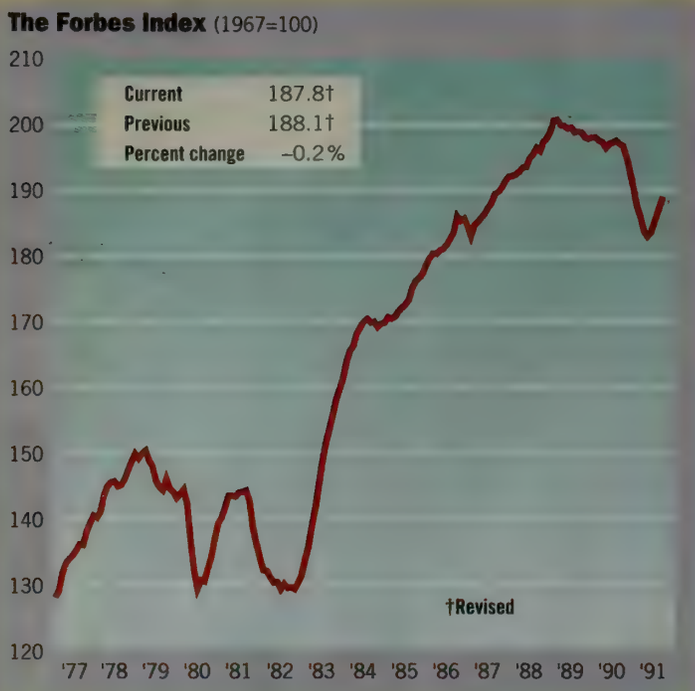
But issuing long bonds at fixed rates was also very costly to the country. A calculation made in 1987 by U.S. Treasury economists showed that the 30-year bond directly added a cumulative total of nearly $60 billion to government borrowing costs from 1985 to 1993, a date chosen because it coincided with the end of the now defunct Gramm-Rudman-Hollings deficit reduction law.

"There's no way [the U.S.] government ought to pay a premium for borrowing for 30 years rather than 10," says Bell. "It's like having the government not use heavy envelopes when it sends out tax forms."

—GARY SLUTSKER

THE FORBES INDEX

BY TIMOTHY DODMAN



The recession has eliminated nearly 1.6 million jobs since it began in July 1990; roughly half the losses took place in 1991. A glimmer of hope may be found in December's job report: Seasonally adjusted nonfarm payrolls increased by 31,000 workers. Though too small to indicate any real momentum, this gain is a move in the right direction. Meanwhile, wholesale prices of finished goods declined 0.1% in 1991, the first annual decline since 1986. Investors may be getting paltry yields on their investments, but they are losing a smaller bite to inflation.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5%
Auto sales 1991 vs 1990[1]	Ward's Automotive	–11.0%
Index of leading indicators Nov vs Oct	Dept of Commerce	–0.3%
Trade balance 12 months ended Oct 1991	Dept of Commerce	–$71 bil
All-commodity producer price index Dec vs Nov[2]	Dept of Labor	–0.4%
GDP 3rd quarter vs 2nd—annualized growth	Dept of Commerce	1.8%
M2 (3-month change)—annualized growth[3]	Federal Reserve	2.0%

[1] U.S.-based manufacturers, excludes imports, as of 12/31/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

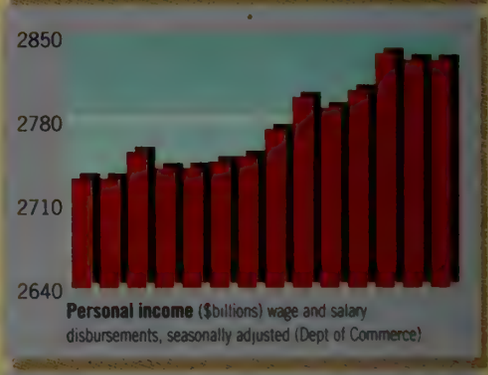
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)

Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

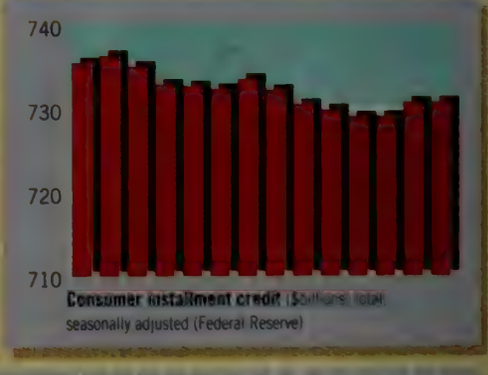
New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)

New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total seasonally adjusted (Federal Reserve)

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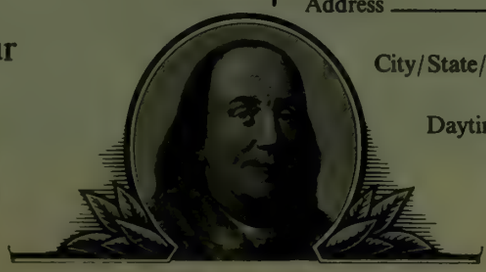

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After 1945 U.S. foreign policy focused on the Cold War. George Bush's Asia trip signals a reorientation of that foreign policy.

Dollar diplomacy

By Lawrence Minard

"DISMAL," pontificates the *New York Times.* "A debacle," chides the *Wall Street Journal.* But these two august sheets may have missed something quite important.

On a symbolic level, at least, George Bush's 12-day swing through Asia represented a victory for American business people who believe that U.S. foreign policy has, for the past 40 years, concentrated too much on placating our allies and potential allies and not enough on promoting the economic interests of the U.S.

President George Bush (center, left) in Tokyo talks

In the aftermath of the Cold War, a new commitment to promote U.S. commercial interests overseas.

The history books will thus treat the trip more kindly than the news media have.

At every stop along the 26,000-mile trail, Bush and his senior advisers told their hosts that for the first time in America's diplomatic history, a sitting President had included businessmen in his delegation, and was determined to promote U.S. business interests. Robert Mosbacher, who recently quit as Commerce Secretary to run Bush's reelection campaign, put it this way to Japanese businessmen in Osaka: "The message of this trip is that this government and this President, with the U.S. business sector, together see the global economy as of paramount importance."

Before World War II the U.S. Commerce Department was one of Washington's strongest agencies; it served as Herbert Hoover's springboard to the presidency. But after the war, forging diplomatic relations with Japan, South Korea, Turkey, Germany, China and other geopolitically important Cold War allies took precedence over looking out for U.S. commercial interests. If U.S. business people protested the effect of foreign economic policies on their companies, the State Department's typical response was: Let's not rock the boat.

A new direction was signaled in December 1989, when Deputy Secretary of State Lawrence Eagleburger, at Mosbacher's urging, ordered all U.S. ambassadors to actively promote U.S. economic interests. "Commercial diplomacy," as Commerce Department staffers now call it, has gained momentum as Communist regimes have crumbled. In March, for example, the U.S. ambassadors to Singapore, the Philippines, Malaysia, Indonesia and Thailand will travel to several American cities, counseling business people on commercial opportunities in the rapidly growing Association of South East Asian Nations' markets.

The businessmen who accompanied Bush on this Asian trip say they feel the government is more willing than before to help pry open closed foreign markets. Air Products & Chemicals Chairman Dexter Baker, a member of Bush's Asian entourage, says: "Looking ahead to the next century, we'll have economic, not military, competition."

Doctrinaire free traders, who insist that business and government be as divided as church and state, have been quick to label Washington's new commercial diplomacy as "managed trade," bordering on protectionism. This is not necessarily so. Promoting fair trade does not mean curbing free trade.

Maurice (Hank) Greenberg, chairman of American International Group, the global insurance outfit, traveled with Bush to Asia and has this to say to free-trade purists: "Half of our [AIG's] billion-dollar pretax profit this year will come from overseas, so why in hell would I support protectionism?"

Greenberg would, however, like to see the Japanese trade more fairly. He points out that AIG has been in Japan since 1946 and has built up an impressive business with individuals and small businesses. Yet AIG writes almost no industrial risk insurance in the world's second-largest industrial nation. Why not? Because most such insurance in Japan is written by Japanese underwriters that have substantial equity cross-ownership relationships with their customers—a nontrade barrier that effectively freezes out efficient foreign competitors like AIG.

Back home from the Asia trip, Greenberg says he thinks Bush's dollar diplomacy will yield some tangible benefits. Under the newly inked Tokyo Declaration, a bilateral committee will meet to discuss cross-ownership and other structural impediments to trade. "I hope and expect," says Greenberg, "that we'll be able to write industrial risks in Japan even if we don't have sizeable securities ownership in our customers."

Banks like to blame their bad loans on the economy, but how do you explain this Chase Manhattan beauty?

Know thy collateral

By Gretchen Morgenson

REMEMBER Anthony Deangelis' salad oil caper of the 1960s, when phantom collateral cost American Express and other Wall Street firms hundreds of millions of dollars? Couldn't happen again? Well, it seems to have happened again, only with crude oil.

Who was the fall guy this time? Chase Manhattan Bank. Chase, with four other banks participating, disbursed around $230 million to one Arochem International, a privately held oil refining, trading and petrochemical marketing outfit headquartered in Stamford, Conn.

Here's the story as we piece it together:

William R. Harris, president of Arochem, started the company in 1987 and acquired an 80,000-barrel-a-day refinery in Ponce, Puerto Rico. Harris is no operations man, having learned the oil business trading crude contracts at the Wall Street commodities powerhouse Philip Brothers.

By appearances, Arochem was a substantial company, with $700 million revenues in 1990, according to documents filed by its chief financial officer, V.J. Dispenza. The big accounting firm Ernst & Young pronounced Arochem financially sound as of May 31, 1991. The statement was predicated on Arochem's ownership of about 12 million barrels of oil, most of it said to be at sea in tankers.

All this must have been reassuring to the folks at Chase and the other lending banks. But they should have delved deeper.

It turns out that Arochem was a big player in the volatile oil-futures market, trading with outfits like Bear, Stearns, Morgan Stanley and the commodities subsidiary of Goldman, Sachs. As of October 1991 industry gossip was that Arochem was losing heavily in a short position in November crude contracts. And then, sometime in late December, Arochem's board suspended Harris and Dispenza, and for a few days even had off-duty Stamford police officers guarding the office to prevent the two men from returning.

A spokesman for the Federal Bureau of Investigation in New Haven says that both the FBI and the Internal Revenue Service are conducting a criminal probe into Arochem involving tax evasion and wire fraud with "international dimensions." The FBI in New York City is doing a third investigation into possible bank fraud at Arochem.

Here's what seems to have happened, according to sources close to the events: Early on in Arochem's existence, William Harris owned a majority of the firm. But in search of funds he took on as partner an investment group led by Edwin Wells, a former Allen & Co. investment banker. When he made the investment in Arochem, Wells apparently wrote a shrewd contract, in which his group would gain an increasingly greater equity stake in the company if Arochem experienced cost overruns in the refinery.

John Labbe

After several years of operations, Harris and Wells were in dispute over who controlled Arochem. What did Harris do? He continued to run Arochem, but also set up—on his own—a parallel company, Arochem International Ltd., domiciled in Grand Cayman. Harris traded aggressively for both Arochem International's and the newly formed Arochem International Ltd.'s accounts.

In December 1991 Harris' Grand Cayman company borrowed money from Banque Paribas, pledging

as collateral inventory, receivables and more than $500,000 in profits from crude-oil trades. Fine for Paribas. Unfortunately for Chase and fellow lenders, that left the U.S. company short.

The raw material inventory of the U.S.-domiciled Arochem, meanwhile, shrank dramatically. Storage tanks at the refinery held 5.5 million barrels of oil about two years ago, and just 600,000 barrels in January. Where did the missing oil go? Harris may have had to liquidate it to cover trading losses. A group of supertankers supposedly held as many as 10 million barrels as of last May, but the tankers never existed. Apparently neither Chase nor Ernst & Young asked for proof of the tankers' existence. Seventy of the refinery's workers were sent home in mid-January, as were 12 at headquarters.

Chase and Bank Brussels Lambert each have about $80 million at risk, and three other lenders another $70 million among them: Credit Suisse, Banque Indosuez and Finland's Skopbank.

Right now all the principals are maintaining a tight silence. A spokesman for Chase acknowledges that Arochem is a client and there is a problem with the loan, but will not discuss the matter further. Harris, of late living in the lavish Tudor-style home in Greenwich, Conn. he bought last June, does not return calls. Neither does Dispenza. Accounting firm Arthur Andersen, currently scrutinizing Arochem's books, has reportedly determined the loss at the company to be no less than $180 million. Arochem spokesman and lawyer Gregory Classon confirms that the company had a visit from the U.S. Attorney's office but said little more. Arthur Andersen declines to comment, but an Ernst & Young spokesman allows that "there may have been a concerted effort by former members of senior management to mislead us in our audit work." In other words, don't blame us.

The futures traders that the two Arochems traded with aren't going to lose much money. Brokerage firms mark their customers' positions to market each evening and sell a customer out if his equity goes too low. Banks are less adept at protecting themselves. ■

Grab 'em before it's too late: The Treasury has neglected to cut rates on 6% savings bonds.

A deal you can't refuse?

By William Baldwin

BUY U.S. savings bonds.

The foregoing announcement is not presented as a public service. Quite the contrary; the idea here is for you to enrich yourself slightly at the expense of the public.

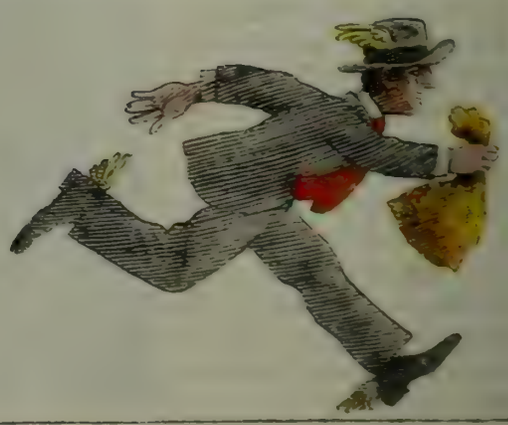
An unnoticed side effect of the collapse in interest rates is that it has turned the Series EE savings bond into a bargain. At any time, the U.S. Treasury could correct the anomaly by cutting the minimum interest rate on the bond. Buy now before the 6% window slams shut.

The Series EE carries a variable interest rate, reset twice a year at 0.85 times the rate on marketable five-year Treasury notes. No bargain there. But the EE also has a minimum rate of 6% if you hold it for at least five years. Like the notes, the savings bond compounds semiannually and is exempt from state and local income tax.

Five-year Treasury notes, as it happens, are now trading to yield exactly 6%. Two features make the EE a better buy. One is that you report EE interest on your federal tax return not when you earn it but when you feel like reporting it. The other is that the maturity of the EE is subject to your whim.

How much are those features worth? It depends on future tax rates and future interest rates. But this will give you some idea. Assuming your federal tax bracket is now 34% and doesn't change, then the right to defer reporting the interest until you cash the bond in adds about 0.2 percentage points to your aftertax annual yield, if you hold for five years. The deferral is worth 0.9 percentage points of aftertax yield if you hold for the maximum 30 years.

The variable maturity feature is potentially much more important. Consider what happened to last-minute buyers in an earlier savings bond stampede, which took place in the fall of 1986. At the time, the guaranteed minimum return on the EE hovered at an appealing 7.5% even as market interest rates sank. People who put their money down before the minimum was slashed are sitting pretty now. Since they can cash in their bonds at any time, they have, in effect, a zero-risk money market account, except that it pays 3 points more than



Dist. B. Sackman

ordinary money markets.

If you were going to invest in medium-term Treasurys anyhow, buy EEs instead. Hold for five years. If, by that time, market interest rates have fallen further, hang on to your EEs. If rates have climbed, cash the bonds in and buy marketable Treasury notes.

Note that the variable rate fall-back doesn't do you much good. Why not? Because this part of the formula is slanted in the Treasury's favor. You don't get, for each six-month reset period, the greater of 6% a year or 0.85 times the rate on notes. Rather, you get either 0.85 times average market rates over the whole time you've held the EE, or, if it's greater, 6% over the whole time.

What if tax rates go up? You're well protected. Start out by declaring that you intend to defer reporting interest until redemption. If and when a tax hike is enacted, switch to current reporting of your interest. You will declare the interest accumulated to that point on your next tax return, paying at your old tax rate. It is highly unlikely that a rate hike would be made retroactive.

What if you need to cash in before five years? Rates scale up, starting at 4.2% for a six-month holding period. That's more than you can earn on a six-month Treasury bill. It's hard to lose with these EEs.

If you buy jointly with your spouse, the maximum amount you can put into EEs is $30,000 a year. This quantity will have a face value of $60,000, but the face value of these bonds is an irrelevant concept. (At 6%, your $30,000 investment would turn into $60,000 in a little less than 12 years, but you may or may not hold that long.) The tax deferral survives the death of the first spouse. Sole owners are limited to a $15,000 investment per year.

An additional feature of EEs is that they become completely tax-exempt if proceeds are used for a dependent's college tuition and the owner's income is low in the year of redemption. The tax exemption begins to phase out at $62,900 of adjusted gross income on a joint return.

A hard-to-beat investment in this environment. Easiest place to buy the bonds: whichever bank has your checking account. ■

Once a gold mine, television network affiliates are losing ground as more viewers turn to cable and the networks cut back their support.

Endangered species

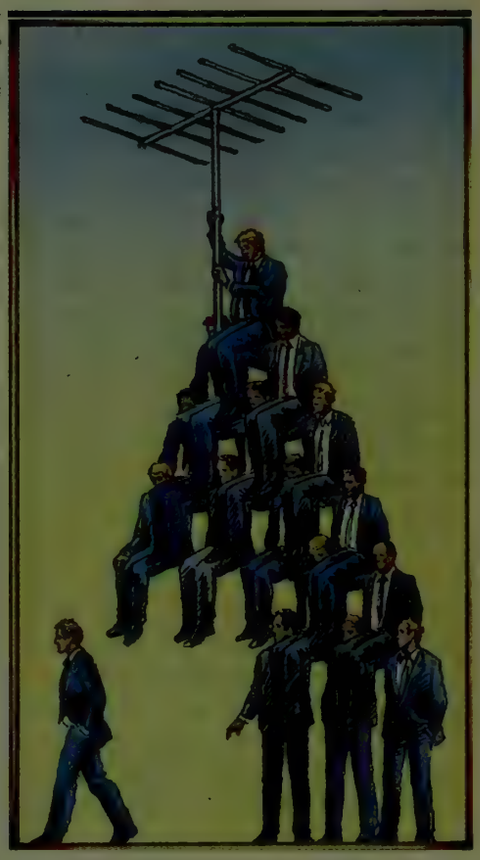
By Kathryn Harris

BECAUSE OF A drastically trimmed budget, WVUE, the ABC television affiliate in New Orleans, sometimes can send only a cameraman to a news scene—reporters have to get the facts later by phone. In Buffalo, N.Y., CBS affiliate WIVB-TV didn't have enough cash flow to cover $11 million in interest payments last year. NBC affiliate WOWT in Omaha has reduced its work force by 24% in 18 months and eliminated overnight news coverage and two of its weekend newscasts.

It's not a pretty picture these days for many of the nation's 600 network affiliates, which in years past were virtual money machines. And why not? Programming was mostly free, local advertising provided healthy profits, and stations received lucrative annual "compensation" payments from the networks, eager to keep their local franchises loyal.

As the networks have lost ground, so have their affiliates. Independent television and cable are making huge inroads in network affiliate viewership, which sank to 52% of all TV households in the 1989-90 season, down from 63% five years earlier. Cable penetration is expected to increase to 67% by the end of the decade, up from 60% at present. And other alternative delivery systems, such as direct broadcast satellite, are on the horizon.

Moreover, the networks are lobbying the Federal Communications Commission for permission to buy cable systems. As an FCC report recently noted, the networks may find it more profitable to supply programming directly to cable.


Jean-François Allaux

Meanwhile, beset by spiraling programming costs and eroding viewership, the networks have reduced their programming schedules in non-prime-time periods. NBC, for example, last fall reduced its daytime programming by 1 hour to 4½ hours. And the three networks have slashed the compensation they pay affiliates by nearly 18% over the last six years, from $425 million in 1987 to an estimated $350 million this year. Compensation is the sweetener paid to stations for carrying network-sold

commercials and programming—even when the affiliate might profit more by substituting a show from a different supplier.

The operating cash flow margin at four network affiliates owned by Times Mirror Co. has tumbled 50% in the last five years, to an estimated 28% last year. At the Washington Post Co., the broadcast group's operating cash flow margin declined to about 35% over the same period.

Those are still pretty good margins. But the payment cutbacks can be particularly painful for the stations that borrowed heavily in the 1980s—like Buffalo's WIVB-TV—and those in the smallest markets (ranked 176 and below), where network compensation accounted for 76% of average pretax profits in 1990.

To the beleaguered networks, these affiliates in smaller markets may look increasingly expendable. Why? Markets below 100 represent only 15% of the nation's TV households. Indeed, the recent FCC staff report suggests that some network affiliates in smaller markets are bound to go out of business as they struggle to compete.

Little wonder, then, that running an affiliate has "gone from a business that was a no-brainer to one that is management intensive," says Peter Desnoes, a former ABC executive whose company owns five network affiliates, including the budget-pinched WVUE in New Orleans. Desnoes' company, Burnham Broadcasting Co., was blocked by senior creditors from making a $2 million interest payment to bondholders last September; it is now trying to refinance its $180 million debt package.

For the future, many of the affiliates may face the loss of some of their best programming. Former NBC chairman Grant Tinker predicts that expensive-to-make series like *L.A. Law* will migrate to pay television over the next 10 to 15 years, because it will take the combined revenue of advertising and subscriptions to finance their production. "People, ironically, will end up paying for what they've had for free," Tinker says.

Remember when owning a network affiliate was like having a license to print money? There just ain't no such thing as a sure thing. ■

Does insurance mean what it says? Depends on whom you ask.

Policy puzzle

By James Lyons

CALL IT the case of the dueling dictionaries. Because of a titanic battle between insurers and their customers, state and federal courts in California are pondering the meaning of terms such as "unfair competition," "advertising activities" and "damages." Poring over their copies of Merriam-Webster's dictionaries, judges are taking on the role of linguists.

But pore they must, because the stakes are high. Construed one way, the terms in question could force insurance companies to pay hundreds of millions of dollars in suits ranging from securities fraud to patent infringement. Read another way, the terms can allow insurance companies to weasel out of their contractual obligations, say their customers.

At the center of the fierce debate is what's known as a comprehensive general liability policy. Virtually all businesses carry one. They protect against liability for property damage and bodily injury.

A commonly added provision provides coverage for libel, slander, copyright infringement and unfair competition "occurring in the course of advertising activities."

Back in 1986 a California bank now known as Bank of the West was hit with a customers' class-action suit alleging the bank had charged excessive interest. The bank settled the case for $750,000. When the bank looked to its general liability insurer for coverage, the carrier balked.

The insurer, Industrial Indemnity Co., won the first round. A California trial court accepted Industrial Indemnity's argument that the definition of unfair competition is a narrow one and applies only to suits brought by competitors—not customers.

But the bank fought back, winning before the California Court of Appeal. Holders of general liability policies can find much to cheer about in the panel's sweeping ruling.

In the absence of an explicit definition of unfair competition in the policy, the court furnished an expansive one. To the appellate panel, unfair competition "encompasses any unlawful, unfair or deceptive act committed against both a business competitor or the public."

If that's not what the insurers intended, tough luck. Under California law, the court found, linguistic ambiguities are construed against insurers, since they're the ones who draft the policies. Using the same analysis, the court held that advertising includes "any activities designed to bring a seller's goods or services to the attention of potential buyers."

The court painted with equally broad strokes the definition of damages. The Bank of the West policy did not define damages. Therefore, the court found, such a lack of clarity should "dictate" a finding against the insurer.

Trounced by the court, Industrial Indemnity asked the California Supreme Court for review. Meanwhile, federal judges in California were also scurrying to their dictionaries.

The U.S. Court of Appeals for the Ninth Circuit heard oral arguments on the same issues in December. But that panel ducked, saying they would wait to decide until the California Supreme Court rules.

It's a classic example of meaning being in the eye of the beholder. The reasonable meanings of the words in the policies are crystal clear to each side in the dispute. Yet definitions vary depending on which source is consulted—dictionaries, court opinions or statutes.

Insurers would do a service to themselves—and their customers—if they defined precisely what they're insuring instead of leaving it to a bunch of judges. ■

Catherine the Great invited the Germans to Russia. Boris Yeltsin intends to keep them there.

Home sweet Volga

By Richard C. Morais and Andreas Wildhagen

ON THE Ulrich-von-Hassel Strasse in Bonn, Germany's Interior Ministry is setting up a new department. It is called Volga Republic Development.

You probably have never heard of the Volga Republic. Neither had we until recently. It doesn't exist yet but soon will, on some 1,860 square miles of land straddling the poetic Russian river *(see map)* just north of Volgograd, formerly known as Stalingrad.

What's it got to do with Germany? Just this: The republic will be inhabited mostly by ethnic Germans and will get a heavy subsidy from Bonn. On Nov. 21 Russian President Boris Yeltsin signed an agreement with German Chancellor Helmut Kohl. Little-known Item 12 committed Russia to "recreating a Republic of Germans in the traditional settlements of their ancestors." Kohl has earmarked $66 million a year for development of the Volga Republic, with an equal sum targeted at other German descendants in eastern Europe.

Stalin must be turning over in his grave. His remote successor President Boris Yeltsin wants to assure some 2 million descendants of German settlers spread across the former Soviet Union that their culture will be preserved and their autonomy will be recognized.

Why is Yeltsin catering to German sensibilities? Easy question. He needs German financial support.

Germany's motives are equally simple and direct. Germany has perhaps the most liberal immigration laws in Europe: Any immigrant who can claim even the slightest German blood has the right of citizenship and financial support. In the last two years alone, Germany has absorbed 619,000 immigrants of German descent from Eastern Europe. Wiedergeburt (Rebirth), a militant cabal of Soviet Germans, has threatened Kohl with immigrating en masse if its needs are not met. Kohl would as soon they stayed home.

The Volga Republic borders in 1941

An autonomous German state deep in Russia.

Kohl hopes to pump enough money and incentives into the Volga Republic to keep these Soviet Germans in Russia. The German Volga Republic government will be autonomous. It will have its own German-language newspaper, TV and radio stations. Its building of a modern infrastructure and trade schools will be aided by Bonn, as will housing for the 300,000 Russian Germans expected to move to the Volga Republic from elsewhere in the old Soviet Union. Russian officials have informed the Bonn ministry they are prepared to launch a Soviet-wide advertising campaign inviting German descendants to immigrate to the new Volga state. German companies—from grocery store chains to construction companies—will be invited to do the rest, with or without Bonn aid.

All this is something of a gamble for Yeltsin. While a Volga Republic is strong bait for German knowhow and capital, it could also produce dangerous nationalistic unrest and envy all over Russia. Already there have been demonstrations in Moscow and Saratov, with fist-shaking at what some are calling "The Fourth Reich." Yeltsin has not yet signed the decree that will formally bring the republic into being. But that isn't stopping Bonn from roaring ahead with its development plans.

How did so many Germans end up deep in Russia? Blame Catherine the Great. Anxious to create a European buffer in southern Russia, and intent upon stimulating the economies of rural regions, Catherine formed the Chancery of Guardianship for Foreigners in 1763, promising religious tolerance and state land to immigrant farmers and artisans. By 1775 some 30,000 foreigners, mostly German, had settled along the Volga.

In 1924, under Vladimir Ilyich Lenin, the Soviet Union established the autonomous Volga Republic. Joseph Stalin crushed the state in 1941, as the Nazis attacked, dispersing the local Germans to the farthest and coldest reaches of the communist empire. Now many of the descendants of this diaspora are returning to their ancestral home along the Volga. "German [Russians] are striving toward this center on the Volga," says Parliamentary Secretary Horst Waffenschmidt, pointing at a reprint of a Third Reich map of the autonomous Volga state. "They are saying, 'This is the land of our forefathers that Stalin stole.' "

German business people are smacking their lips at the prospect. They will soon have a handy base for entering the Russian market: Deep in the nation's heartland will be a German-trained and German-educated labor force, backed by German-built infrastructure. The ideal launch pad.

Rising health care costs are a national problem. Ernest Ludy turned it into a profitable little business.

A health opportunity

By Ignatius Chithelen

TELL A COMPANY with a self-funded health plan you can save it millions of dollars in claim costs, and chances are you'll get in the door these days.

Ernest Ludy has been doing a lot of that lately. Ludy, 46, is chairman and founder of Medstat Systems, Inc., a 10-year-old Ann Arbor, Mich. firm that provides computerized analyses of health insurance claims to 75 big companies like Chevron, Ford, B.F. Goodrich and Federal Express.

Ludy knew the health care business going in. He had done a 2½-year stint in the Seventies as associate director of research at Blue Cross/Blue Shield of Western Pennsylvania, followed by nearly three years of independent health care consulting. He knew there were lots of businesses out there that were scared by soaring health costs. But they didn't know whether costs were rising because of increasing illness, higher doctors' fees, medicine costs, abuse or even fraud.

Ludy also knew there was a trove of untapped data in medical claim files: the length of hospital stay for various treatments, the kind of lab tests done, fees charged, fees paid and the reasons for any nonreimbursement.

He decided there was money to be made analyzing the data for businesses trying to control health insurance costs. "There was no incentive for the insurance companies to look into such data," Ludy says, "since they could pass on the higher costs to their client companies." Nor did the employers have access to the data.

Thus, out of bureaucratic inertia was Medstat born: Employers looking to save money would simply tell insurers administering their plans to turn over all claims records to Medstat, which would massage them into highly focused databases.

With a detailed breakdown of medical costs in hand, employers would then be in a position to negotiate discounts from high-volume health care suppliers. They could also redesign their benefit plans to provide employees with incentives to use cheaper doctors and hospitals while maintaining quality.

It was a risky proposition for Ludy, who has degrees in philosophy and sociology from the University of Detroit. He was accustomed to regular paychecks, and fledgling, undercapitalized entrepreneurs don't often get paychecks. His wife, Carmen, did earn about $20,000 as a research associate at the University of Pittsburgh, but she was seven months pregnant with their first child. Ludy decided to take the plunge anyhow. He was just 33. His consulting business didn't have much future. "Probably my ignorance of what it takes to set up a good business gave me a lot of confidence," says Ludy.

His ignorance didn't prevent him from raising $330,000 from 27 professional contacts. "Being in the health care field, like me," Ludy says, "they knew that companies would pay for information that helps cut their medical care costs."

He also got a hand from Hewlett-Packard. HP was offering free use of minicomputers to startup firms as part of its marketing strategy, and Ludy took advantage of the offer to develop a prototype for his database.

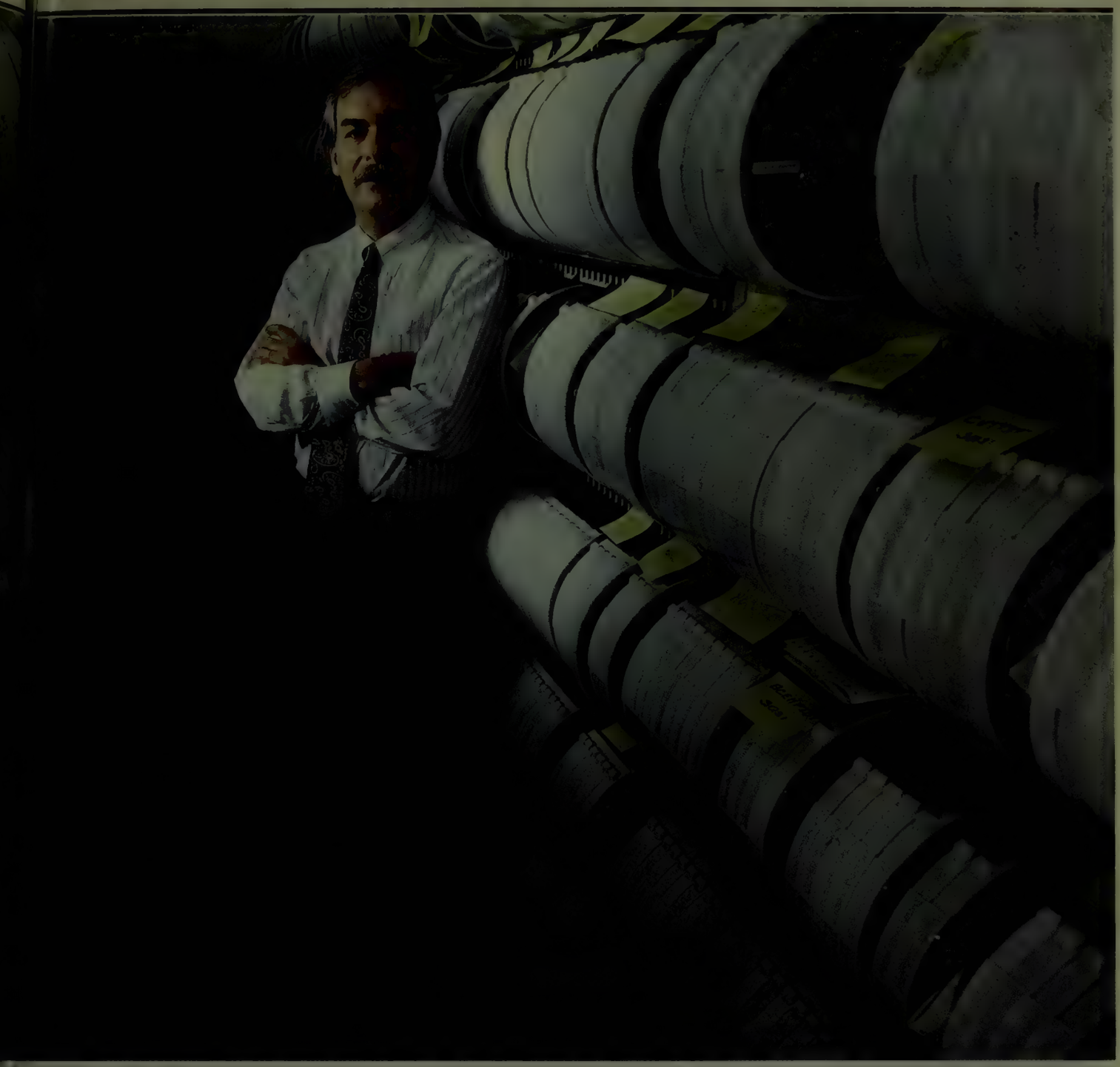
After raising the initial $130,000 of seed money, Ludy landed his first customer, Chevron Corp. Chevron agreed to pay him about $100,000 annually for analysis of its medical costs.

Donna Terek

Medstat Systems Chairman Ernest Ludy **Out of bureaucratic inertia was a profitable company born.**

For a man without business training, Ludy proved remarkably skillful. In 1983, when the market for small technology firms was hot, Ludy took Medstat public, selling 22% of the company at $7 a share. Revenues at the time were about $100,000 a year. Taking the $3.6 million net proceeds, Ludy bought two Hewlett-Packard minicomputers, hired staff to refine the database and stepped up Medstat's marketing efforts. Other big clients soon followed.

Today Medstat's database contains information on 252 million claims



from 6 million claimants. Its clients' claims payments total $8 billion annually—6% of private health care expenses. For the fiscal year ended Sept. 30, Medstat earned $1.9 million, or 66 cents a share, on revenues of $18 million.

Medstat's stock recently traded at 45½—making it one of the few 1983 high-tech offerings that actually paid off for investors. Ludy's 26% stake in the company is worth $33 million on paper. Several early investors have become millionaires, too.

Not surprisingly, Ludy is optimistic. He cites some figures: Between 1986 and 1990 national medical costs annually rose by an estimated 14.8%. Over the same period, Ludy says, Medstat's clients' costs went up at only a 12% rate. Take Chevron. In 1988 Chevron used Medstat's data to identify over 120 hospitals nationwide that showed a high volume of usage by Chevron's 37,000 U.S. employees. Medstat broke out the claims information on a hospital-by-hospital basis. With that information in hand, Chevron negotiated discounts from the targeted hospitals. In 1989 and 1990 hospital discounts alone saved Chevron a total of $7.4 million.

Ludy says Medstat has retained more than 90% of its clients and is adding new ones steadily. Last year five insurance companies, including Prudential Insurance and Cigna, began using Medstat's software to help improve their data collection and rate hospital and physician quality for managed health care systems.

It's a cliché that problems breed opportunity, but true all the same. Ernest Ludy looked at the problem of health care costs and saw a great opportunity. That's what entrepreneurs do: study change and figure out how to profit from it. ■

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Though the educational bureaucracies hate the idea, a number of private companies are getting into the public school business.

Foot in the door

By William Tucker

LAST YEAR hyperactive 9-year-old Javier, as we'll call him, seemed unable to concentrate on anything long enough to complete simple assignments in school. This year Beth Rosenthal, the boy's new third-grade teacher, tried a different tack. She told the boy he could work through the math book on his own, as fast as he wanted. Javier revealed a hidden talent for arithmetic and is now far ahead of the rest of the class.

Javier is participating in a "Tesseract" school. The program was introduced into South Miami Beach's South Pointe Elementary School last year by Education Alternatives, Inc., a publicly owned company whose assets Chairman John Golle acquired from Control Data Corp. in 1986. Under a $1.2 million contract it won in 1990, EAI designed and implemented the curriculum for South Pointe's 700 mostly poor and Hispanic elementary school pupils for the next five years.

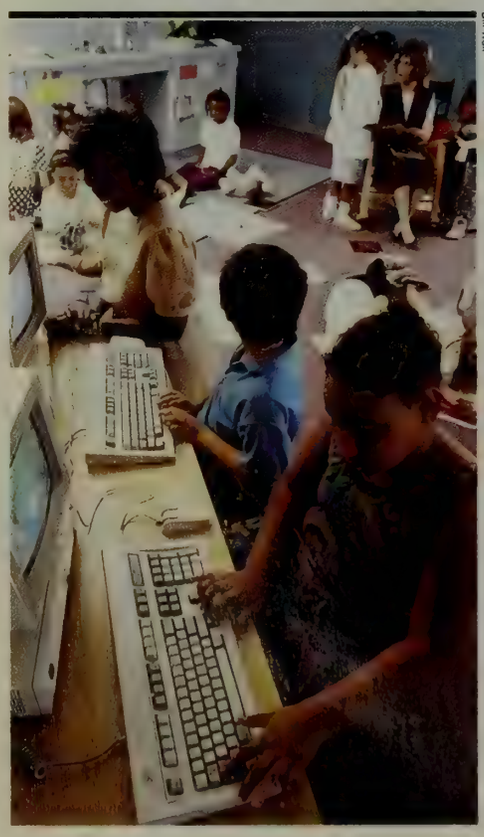
With revenues last year of just $2.3 million and a loss of $1.5 million, Nasdaq-listed Education Alternatives has grand ambitions. It is talking with the Florida Department of Education about taking over the management of an entire school district later this year, in partnership with KPMG Peat Marwick and Johnson Controls World Services, Inc. If the group wins the contract, Peat Marwick will redesign the district's entire administration. Johnson Controls—which manages a portion of the Kennedy Space Center at Cape Canaveral—will handle the district's day-to-day operations. EAI will redesign the curriculum.

"We figure we can reduce operating and administrative spending by 25% and put 20% back into the classroom," says EAI's Golle. "The other 5% will be our profit." Golle adds: "There is so much fat in the schools that even a blind man without his cane could find the way."

The numbers bear him out. Studies in New York and Milwaukee have found that over 60% of school budgets feeds the administrative bureaucracy. Four years of running a private Tesseract school in Eagan, Minn. has given EAI confidence it can educate kids without layers of bureaucracy.

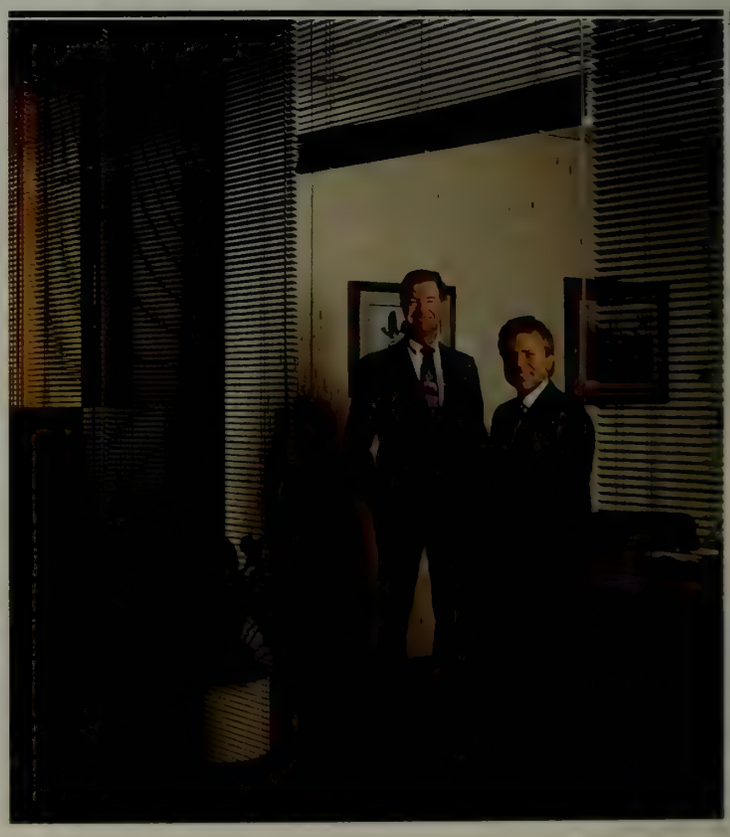
Using recent educational research, the company divides children into "visual," "audio" and "kinesthetic," or action-oriented, learners. It then trains teachers to identify individual learning styles. Once diagnosed, each child is fitted with a "personal education plan." Young Javier was classified as a kinesthetic learner—one who learns best by manipulating objects. So teacher Rosenthal set him to work with a set of Lego-like blocks that join and separate to represent arithmetic equations. The boy suddenly discovered he enjoyed mathematics.

EAI is not the only company seeking to profit by minimizing waste and inefficiency in the public schools. Ombudsman Educational Services, a privately owned firm in Libertyville,



Bill Wax

LEFT: Tesseract at work in South Miami Beach **Tailoring the curriculum to each child's learning style.**



Lynn Kennedy

RIGHT: President David Bennett and Chairman John Golle of EAI **"We don't just want to compete with the public schools. We want to become the public schools."**

Ill., has contracts with 23 school districts in Illinois, Minnesota and Arizona to educate problem students who are on the verge of leaving—or being kicked out of—the public schools. Ombudsman charges the districts about $3,500 per pupil—$2,000 below the average cost of providing public education in Chicago (and half New York's $7,000-per-student average cost).

"We've reduced the six-hour school day to three hours of intensive learning," says James Boyle, a former assistant school superintendent in the Chicago area who founded the company in 1975. "We've eliminated study halls, lunchtime and all the other extras." The goal is to pare noninstructional time to a minimum. With a shorter school day, says Boyle, "Most of our older kids are holding down jobs," an important consideration in poor areas.

The short school day allows Boyle's teachers to handle nearly three shifts, keeping student-teacher ratios low.

Such reforms sound obvious, but getting them done in a public school bureaucracy is almost impossible. "I tried implementing some of these ideas as an assistant superintendent," says Boyle, "but changing things in the public schools is like changing things in the Vatican."

Instead of seeking to reform public schools, Christopher Whittle's Whittle Communications, of Knoxville, Tenn., is going into direct competition with them. Whittle has just announced its "Edison Project," a plan to build 200 nursery-to-12th-grade education complexes by 1996; each complex would enroll 2,000 pupils at a time. Projected tuition: $5,300.

Although he says he isn't counting on it, Whittle would be perfectly positioned if states began adopting private school choice—a system that would allow tax dollars to flow to private schools. School districts like Detroit's are talking about "chartering" private schools—simply inviting them to join the public school system. Parents would be able to enroll their children in these schools at public expense. It won't happen overnight, but the swing toward private-sector education is under way. The teaching bureaucracy can slow the movement but won't be able to stop it. ■

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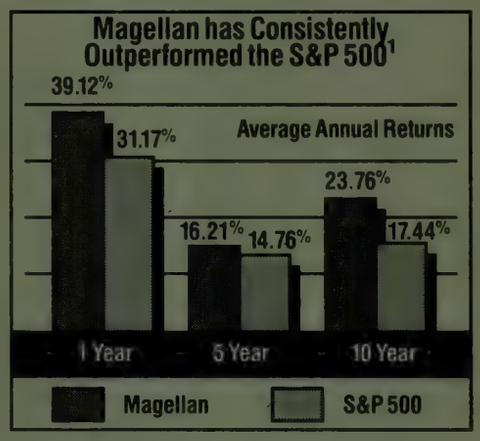

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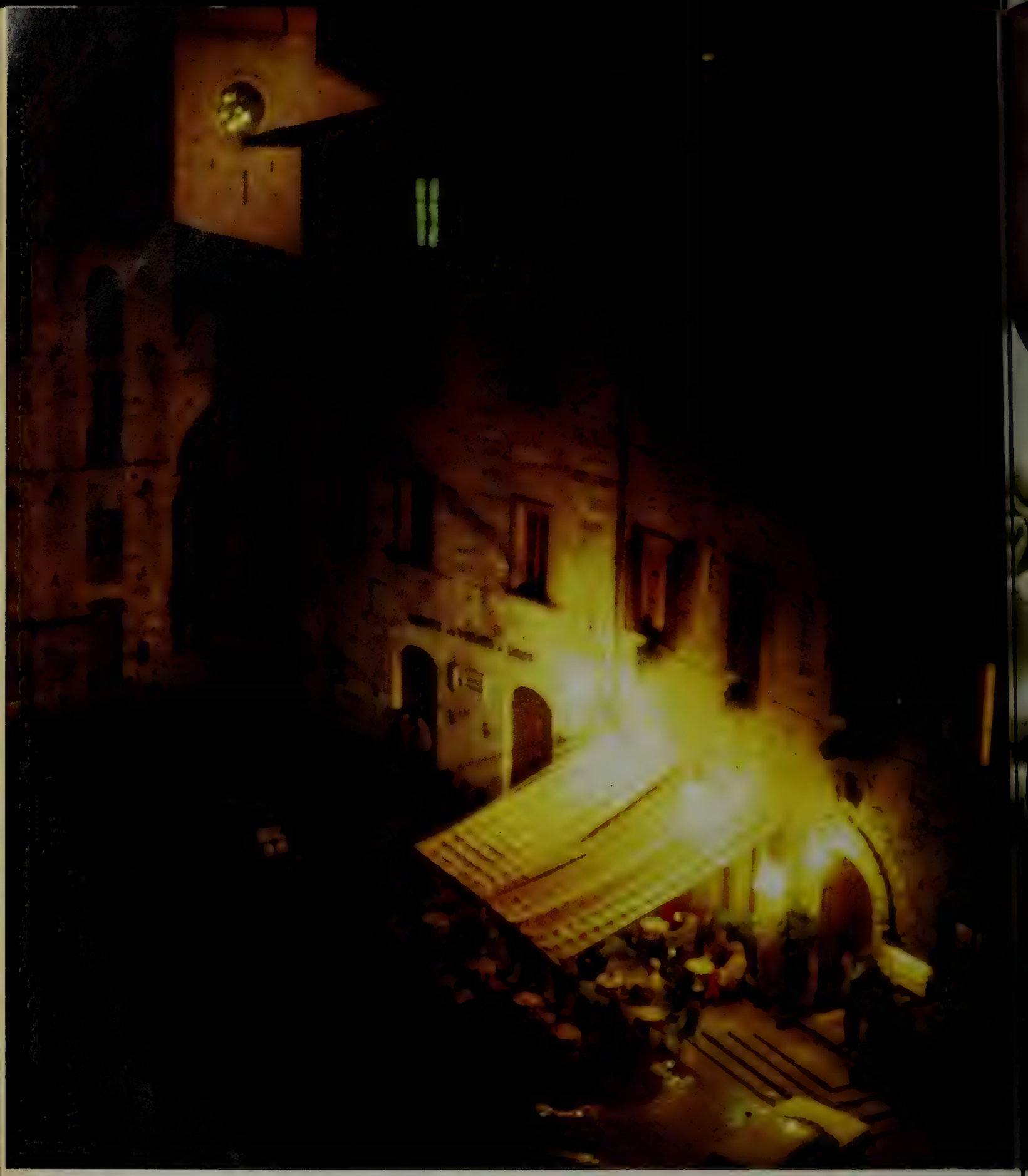

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Italian Wines. The Quality of Life.

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It's not the business you're in, it's how you run it that counts. Defying the cycles that afflict its industry, Smithfield Foods makes good money in pork products.

$ Oink, $ Oink

By Rita Koselka

By Commonwealth of Virginia law, a "genuine Smithfield" ham must come from a pig that has been cured six months within the boundaries of the town of Smithfield, an hour's drive west of Norfolk, Va. Only since 1966 have the pigs been allowed to eat anything but peanuts.

Most genuine Smithfield hams are produced by Smithfield Foods, Inc., but the salty delicacy is probably the most traditional thing about this highly efficient company. With profits last year of nearly $29 million on revenues of $1.1 billion, Smithfield is a standout in the meat business—especially in pork, where rivals like ConAgra are losing money.

Katherine Lambert

Smithfield Foods' chief executive, Joseph Luter III

Finding it easier to make money in pigs than in real estate.

Smithfield sells all kinds of pork products—ham, bacon and sausage, pork chops, loins—under a variety of brand names—Gwaltney, Hamilton's, Esskey and Luter as well as Smithfield. As General Motors does in motor vehicles, so Smithfield does in pork, offering a full line of products under different brand names. But the concept has worked a lot better for Smithfield lately than for GM.

Smithfield's Chief Executive and very much its boss is Joseph Luter III. A burly, sometimes arrogant, man, Luter, 52, is the third generation of his family to head Smithfield. His father and grandfather started Smithfield Packing Co. in 1936 after leaving another family-owned pork packer where they saw no future for themselves. They raised $10,000 in capital from local investors and opened a packing plant across the street from their former employers. Smithfield now owns that company, too.

Young Luter had no intention of following in the paternal footsteps. "My father was a 'my way or the highway' type of guy," says Luter, who decided to go to law school. But in his senior year at Wake Forest University his father died of a heart attack, and the day after graduation, in 1962, Joe Luter put away his law school plans and started running the family's slaughterhouse. Four years later a Washington, D.C.-based conglomerate offered $20 million for the business. Luter pocketed his share of the money but stayed on as a manager. He was fired six months later.

Young and rich, Luter went off to live high off the hog. He split his time between New York and developing Bryce Mountain, a Virginia ski resort. No more slaughterhouses for him. But in late 1974 he heard the former family business was in deep trouble, losing $1 million a year, with debts of $17 million. "For a company like this to lose money in December, it's like Budweiser losing money in July," guffaws Luter. He saw a chance to get his company back for a pittance. The temptation was too strong to resist.

Who can improve your employee benefits without increasing costs?

Good-bye, ski business.

The creditors hired Luter as head of the company at a salary of $50,000, with options to purchase 10% of the stock for $1 a share. It was then trading at 50 cents.

Luter reduced the debt by selling the nonpork operations, such as a chain of seafood restaurants. In 1975 he had Smithfield back in the black with profits of $393,000.

No more conglomeration. Smithfield was going to be a pork company. Luter bought troubled processors with good brand names and applied cost-cutting techniques. In 1981 he bought his father's former employer, Gwaltney of Smithfield, from ITT for $34 million. "That was sort of exciting," he says in a gruff drawl.

But he wanted Gwaltney for more than sentimental reasons. Like Smithfield itself, Gwaltney had a built-in cost advantage over competitors in its location. Both companies are much nearer East Coast and southern markets than midwestern competitors; over 50% of the U.S. population is within one day's delivery.

Smithfield's plants are also close to North Carolina, where hog farming is booming. Many midwestern states—including Iowa, where 25% of the nation's hogs are grown—have passed anticorporate farming laws. Intended to protect family farms, these laws, in fact, block the adoption of efficient large-scale hog-raising operations. North Carolina does not discourage these operations, which require substantial amounts of capital and management knowhow.

As recently as 1987 Smithfield freighted in 35% of its hogs from the Midwest, paying a premium of $4 to $5 per head. It has been scaling back these imports. It now gets 50% of its hogs through arrangements with Carroll's Foods of Warsaw, N.C. and Murphy Farms of Rose Hill, N.C., the largest hog farmer in the U.S.

While not exactly high tech, hog farming is a far cry from the image of dirty, slop-filled pens. On a recent visit to Smithfield-Carroll farm number 2, this pristine reporter was required to shower and put on fresh white coveralls and rubber boots before entering the "barns" for fear she might infect the pigs.

Twenty thousand pigs are raised on the number 2 farm each year (versus about 1,500 for a typical Iowa farm). The pigs grow to 240 pounds in six months before being trucked off to Smithfield's slaughterhouses.

To take advantage of this steady supply, Smithfield is expanding capacity 50% this year by building a $60 million plant in Bladen County, N.C. "If we bleed, our competitors will hemorrhage," boasts Luter.

For the future, Luter is looking to improve the pig. Last year a joint hog-production arrangement with Carroll's Foods bought the exclusive U.S. rights to a genetically new British pig. Typical of Luter's style, it took him less than a half-hour to decide to buy the rights. The English pig, Luter claims, is significantly leaner than most pigs raised in the U.S. While most U.S. pigs are about 30% fat, with a 1¼-inch layer of backfat, the new English pig is 12% fat, with less than a half-inch of backfat. That makes trimming and processing cheaper and yields more meat per pig. Luter says this aristocrat of pigs will increase pork-processing profits by $7.50 to $10 per head in the next few years, more than doubling Smithfield's present take of $6 per pig.

All of which shows that there are profit opportunities in even the least promising of industries. A conventionally minded stock analyst, however, might not find Smithfield all that appealing. Its earnings fell from almost $17 million in 1988 to $11 million in 1989, and slumped to $7 million in 1990, before jumping to 1991's $29 million.

Katherine Lamber

Pig pile

There's a cost advantage to growing up on the East Coast.

Luter explains these earnings swings in terms of the four-year average length of the hog cycle. When the price of hogs is high and/or corn is cheap, farmers raise more pigs; the resulting oversupply causes prices to fall. Farmers cut back until prices begin to rise again. If, with every four-year cycle, Smithfield's average revenues and earnings are up a substantial amount over the prior cycle's average, Luter is pleased. And that has happened with the sharp 1991 recovery. He hopes to lessen earnings cyclicality by owning an interest in the pigs and profiting when prices are high.

This cyclicality of earnings partly explains why the stock sells at just nine times 1991 earnings in spite of the high average rate of profitability and the probability that earnings will rise again this year.

But Luter says he would rather not spend his time romancing stock analysts about his company's virtues when he can just use price dips to buy back Smithfield stock and increase his own stake. That, in fact, is what he has been doing on behalf of the company. Smithfield has bought back about 50% of its own shares in the past 16 years, concentrating its buying at the low point in the cycles, when earnings are weak. With these buybacks and market purchases, Luter has increased his stake to about 20% of the company. Thus, for an investment of $1.8 million, he now holds shares worth $47 million and has options on another half-million shares.

Pork demand, which rose 4% last year, is expected to be up 3% this year, and 1992 should be another good year for Smithfield. The price of pigs has declined by 20% over the last year, so raw material costs will drop.

With the new plant starting up this year and the prospects for the new pig, J.C. Bradford analyst Patrick Snell expects Smithfield's earnings to double over the next four years, although not in a straight line.

And so the once reluctant pork processor is now as happy as the proverbial pig in slop. "It's a lot easier to make money in this business than real estate development," Luter says, sitting in his spartan office in the middle of his packing plant. Well, maybe not easier, but it can be done.

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Feeding the health care monster has wiped out all real gains in income and made us less competitive abroad. Is more money the only answer?

Health junkies

By Richard Phalon

IT'S HARD to tune into a TV talk show these days without hearing some blow-dried pundit dilate on how health care has become the great "middle-class" issue of this presidential election year.

What you hardly ever hear is that Americans are already pumping an estimated $738 billion into a system many thoughtful professionals think is running out of control. While some people may lack for adequate care, as a group we have become a nation of health junkies.

"It's totally perverse," says Dr. Daniel Johnson Jr., a radiologist and speaker of the American Medical Association's House of Delegates. "We don't have a true market system. You've got medical insurance driving demand, and patients either unwilling or unable to learn the true price of the services they're buying." Another X ray? Yet another test? Why not? The insurance company will pay. "We're like the Defense Department," Johnson continues. "We've got a lot of $600 toilet seats."

Surely something is wrong with a system that has been pushing up health costs at an average of more than 8% a year for the last decade—nearly twice the rate of inflation. Life-saving or life-enhancing procedures like kidney dialysis or coronary artery bypasses are one thing, says Dr. Arthur Caplan, director of the University of Minnesota's Center for Biomedical Ethics; liposuction for the overweight and sports medicine for weekend warriors quite another.

The system keeps chewing up even larger chunks of the nation's resources—about 12.2% of GNP last year, compared with 7.3% two decades ago. Medical insurance premiums, mainly employer financed, have risen to the point where there is now more medical cost than steel in an American-made car.

Are middle-class Americans feeling financially pressed? No wonder. Rising health costs virtually wiped out all of the real gain in household income between 1980 and 1987. They are hurting the U.S. competitive position abroad, too. The U.S. spends almost twice the 6.5% of GNP Japan earmarks for health care. This means the Japanese have that much more margin to put into capital formation, "product development and other productivity-enhancing investments than we do," says Princeton University economist Uwe Reinhardt.

Has all this created a nation bursting with health? No. By such gross measurements as longevity and infant mortality, the U.S. runs well behind Japan and about the same as or not much better than Britain, France and Germany—all of which spend proportionately far less on health care than the U.S.

"It's not just the high cost," Dr. Caplan told a 3M Corp. health forum recently. It's the gold plating. "We've got health plans in the workplace covering everything from Shiatsu massage to herbal remedies," he says. "If anybody's looked at mental health coverage and the explosion that's gone on there," he continues, "it's clear that there is indulgence all over the place."

- Some indulgence has come from the doctors themselves, whose rising fees reflect in good part a growing shift from general practice to more rewarding specialties. The median net income before taxes for such top-paid specialists as surgeons, radiologists and anesthesiologists grew to around $180,000 in 1989, up 25% since 1981, according to an AMA survey.
- Hospital per diem costs have risen steadily, despite deep cuts in admissions and the length of patient stays. Though vacancy rates run around 40% on any given day, total hospital employment has been rising. Oddly enough, in yet another example of the economics at work in medicine, hospital in-patient revenues have been rising despite the drop in demand.
- There is the proliferation of new diagnostic tools, such as computerized tomography and magnetic resonance imaging installations at up to $2 million a pop. Or surgical procedures like coronary artery grafts and liver transplants at roughly $35,000 and $220,000 per operation.
- Defensive medicine, particularly in the form of redundant testing, is aimed at warding off prospective malpractice suits.

Jack Van Antwerp

Specialist Dr. Ronald Pellegrini
Ten percent of doctors' expenses go toward malpractice protection. "The bigger you are, the bigger the target you become."

■ A growing number of aged in the population live longer because of medical care, and need more medical care the longer they live.

All this change would be difficult enough to deal with, but it is taking place in a marketplace where there is almost no effective competition. Most professionals compete on price. Doctors, some 600,000 of them, who are both healers and businessmen, rarely do. In the absence of effective economic controls, the medical marketplace is full of anomalies.

Detroit's rate of cesarean births, about five times more expensive than normal vaginal delivery, is double that of Minneapolis. For the U.S. as a whole, the number of C-sections scheduled has increased 500% in the last two decades. One journal's finding: If C-sections were done only when medically necessary (rather than for the convenience of patient or doctor), "the national rate would drop by 50%." Potential saving: around $3 billion a year.

The frequency with which Medicare patients use some specialized services (CT scans, coronary angiographics, surgical removal of benign facial lesions) appears to be a function of the number of radiologists, cardiologists and dermatologists practicing in an area. The thicker they are on the ground, the greater the number of procedures. This phenomenon, concludes one report, "could be interpreted as greater access [for patients], or induced demand, depending on one's point of view."

A Blue Cross & Blue Shield Association study of more than 9,000 operations found that more than 20% of the tonsillectomies and hysterectomies reviewed—two of the U.S.' most frequently booked procedures—were not medically necessary.

Before the U.S. rushes into some form of taxpayer-supported medical insurance, it would be wise to consider whether structural reforms might not be needed first. Otherwise, we may find ourselves in the same situation we are in with public education: throwing ever greater amounts of money into a system that delivers deteriorating results.

Are Detroit's C-section rates higher than Minneapolis' because C-sections pay better on Medicaid fee schedules than normal deliveries do? Or are they higher because the pregnancies of Detroit's urban poor present problems found less frequently in more affluent Minneapolis?

One way to resolve those questions would be to standardize the product. So some of medicine's best brains are trying to put together practice guidelines that will give employers, insurers and health management associations a more effective way of monitoring the cost, quality and effectiveness of the health care they are paying for.

Guidelines are needed. The Department of Health & Human Services has already developed practice parameters on hospitals that are susceptible to massage by software. These benchmarks enable intermediaries like MediQual, Inc. (FORBES, *Dec. 23, 1991*) to purvey comparative performance numbers on institutions. There are no such comprehensive indices on doctors yet, and they'll probably be a good while in coming. Health management organizations of one kind or other do a lot of talking about the practice profiles they put together, but they have not been nearly as successful in containing outpatient costs as they have been in limiting hospital admissions and length of stay. And—an acid test—their premiums, too, have been going through the roof.

Meaningful tort reform, such as that advocated by the Administration and bitterly opposed by negligence lawyers, would certainly be a step in the right direction toward controlling medical costs. Some of what seems to be unnecessary medicine is in fact defensive medicine practiced by doctors to protect themselves from predatory lawyers. The threat of malpractice litigation is never very far from consciousness, and is as palpable a menace for pediatricians like Lizbeth Didriksen as for Ronald Pellegrini and his high-risk specialty of thoracic and cardiovascular surgery.

"The bigger you are, the bigger the target you become," asserts Pellegrini, 55, director of Pittsburgh's Three Rivers Cardiac Institute. "Defensive medicine, including malpractice insurance premiums, probably accounts for 30% of our patients' costs," he says. Direct malpractice costs, chiefly insurance, make up 10% of doctors' expenses and account in part for rising medical fees; doctors, like other business people, pass on costs whenever they can. Altogether, malpractice litigation and defenses against it cost the nation well over $1 billion a year. That seems a very high price to pay to police the medical profession for crooks and bunglers.

"Back in the Sixties, when I started," says Pellegrini, "all you had to worry about was trying to make a patient better. Today you worry some attorney is going to come and go over

Mark Katzman/Quadrant

Pediatrician Lizbeth Didriksen
The threat of malpractice litigation is never far from consciousness.

a chart. They don't understand medicine. They just look for numbers. They'll look for an abnormal lab test. So, in a defense, what you have to do is to exhaust all the tests to explain the abnormality."

The number of malpractice suits filed could be cut substantially if lawyer-dominated legislatures would clamp a lid on liability lawyers' contingency fees and push for some form of no-fault malpractice insurance.

It is true, of course, that one reason for rising medical costs is the advances science has made with dozens of new procedures that are dazzling in their virtuosity. Among them: heart, liver and bone transplants; hip and knee replacements; laparoscopic gall bladder surgery.

Tufts Medical School Professor William Schwartz, in fact, thinks technology is the single biggest factor behind the U.S.' rising costs—"at least half," he says. It's not just capital costs but ancillary items such as maintenance contracts (about $22,000 a month on a CT and MRI scanner, for example) and technical staff.

As these procedures become more common, they usually—but not always—come down in price. But this stimulates more use. Look at balloon angioplasty, which at one point was thought of as a possible substitute for the older technique of bypassing plugged coronary arteries with grafts. In 1981, when angioplasty was just coming on the scene, only some 6,000 of the procedures were logged, as against 159,000 bypasses. By 1988, according to Dr. Paul M. Ellwood Jr., one of the U.S.' most outspoken proponents of cost-effective care, medical teams did 235,000 angioplasties and 235,000 bypasses, known as CABGs or "cabbages" in the trade. Thus the new technique was "additive"—an often useful tool that created yet another eddy in the spending stream, without supplanting the old technology.

More high-cost stuff is in the hopper. Look at Centoxin, a monoclonal marvel that promises life for the 100,000 people a year killed by septic shock. The problem is that the drug works only on gram-negative sepsis. Some 400,000 people are seized by septic shock, but at the moment there is no timely way of telling whether an attack is gram-negative or not. Produced by Centor Corp. Centoxin costs some $3,000 to $4,000 a dose. Question: Do you treat all 400,000 patients at a minimum total cost of $1.2 billion, knowing right up front that the exercise is going to be a shot in the dark?

Some commentators contend that rationing is the only way to hold technology costs in check, arguing that the very old, for example, ought not be extended "unlimited care." Oregon is beginning to follow that line of economic triage with a Medicaid package that offers limited care to all below the poverty line. For example, the program doesn't pay for last-ditch neonatal care for infants born before 23 weeks in the womb and weighing less than 1.1 pounds. One child might qualify for a liver transplant, while another might fail to meet the hurdles for a bone marrow transplant.

Programs like Oregon's raise moral issues that are painful but cannot be avoided if we are to control medical costs. Short of dealing with these dilemmas, however, there is plenty of room to curb costs. Look at the less than rational diffusion of technology among hospitals. The competition is on for prestigious procedures, in the hope of filling empty beds. Many community hospitals, for example, argues cardiologist Pellegrini, have invested heavily in coronary surgery but do barely enough work to maintain minimal efficiency in the practice.

"Gall bladder patients get out of the hospital in three to five days now, instead of in a week, so administrators walk the floor nights trying to figure out how to pull in enough new business to cover their bond debt," says Pellegrini.

There are already enough rules on the books to permit both the Department of Health & Human Services and local professional councils to centralize the big ticket stuff in a few hospitals and thus raise efficiencies. No one seems to be paying much attention to enforcing these rules. Marginal hospitals should be closed, not subsidized. Employers have got to ride real hard on providers, rewarding the efficient with volume, blanking out the inefficient. Hypochondriacs force all of us, through cost shifting, to share the tab for all those pampered head colds, upset stomachs, aching lower backs and complaints like attention deficit hyperactivity disorder now much treated by psychiatrists. Why should the already burdened taxpayer subsidize hypochondriacs and needy psychiatrists?

Congress and the taxpayer should consider some of these questions before rushing into ever more costly government programs. But they probably won't. It's always easier to throw money at a problem than to think the problem through.

When will the supply of and demand for equities come back into balance?

Tidal waves

By Robert Lenzner

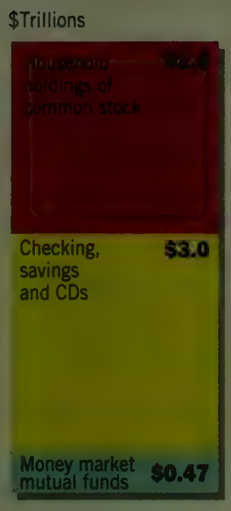
JUST WHEN the individual investor had been about written off, he and she came out of hiding in December and January to propel the Dow industrials decisively past the 3000 mark. What drove them out was the unpalatable prospect of settling for 4% returns on CDs and money market funds. After taxes and inflation, 4% translates into a negative return for most investors.

The arithmetic of the liquidity-driven market is compelling. Americans own around $3.5 trillion in an assortment of cash-equivalent instruments—as much as the value of all listed and over-the-counter shares added together. This $3.5 trillion nest egg includes money market mutual funds ($470 billion), bank certificates of deposit, plain vanilla savings accounts and checking accounts.

It doesn't take much of this money switching to stocks to propel the market like a rocket. Remember, a day's trading on the New York Stock Exchange involves $6 billion, an amount dwarfed by the trillions in the nest egg accounts. A measly 0.5% increase in equities owned by American households—a rise from 18.5% to 19% of all individual assets—means an accumulation of common stocks to the tune of $55 billion. "To place this in perspective, there is no year when all institutions combined have even purchased $55 billion of common stock," conclude Steven G. Einhorn and Abby J. Cohen, Goldman, Sachs market strategists.

This is one major reason some market strategists are predicting that the Dow Jones industrial average will rise to at least 3400 and possibly 4000 by the close of 1992. This shift from cash to equities is an important indicator of the nation's economic future, after all, since rising equity prices are a heavily weighted part of the nation's leading economic indicators.

Good news, that, for the Bush Administration, which has its collective fingers crossed that an economic pick-up will be well under way before November.



Individual investors keep more in cash equivalents than in equities. As yields on those accounts drop, cash will likely pour into equities, the supply of which will increase.

What could go wrong with this bullish scenario? For one thing, every corporate financial officer worth his stock options is rushing to sell equity to strengthen his company's balance sheet. So there will be a plentiful supply of stock, not to speak of debt, to absorb this flow of funds. Debt-laden companies like AMR Corp., Coltec Industries, Hospital Corp. of America, International Paper and USX Marathon Group are lining up at the gates to grab the proceeds of the CDs that are running off.

Second, the "billion-dollar explosion may not happen at all," says Howard Stein, chairman of Dreyfus Corp., a major mutual fund group. Stein believes that money market funds are not considered a pool of investments but a pool of savings, which will be kept in this liquid form. As proof he points to Dreyfus money market assets, which dropped suddenly in late December, when banks and corporations switched momentarily into Treasurys. Then, in early January, Stein asserts, the banks moved the money right back into Dreyfus money market funds.

Third, more bad earnings statements could have a seriously dampening effect. Four percent yields or no, few investors want to be in a stock market booby-trapped with bad earnings surprises.

Fourth, the Bush Administration could announce tax cuts in the State of the Union address, which might raise inflationary expectations and put upward pressure on short-term and long-term interest rates. This could put at least a temporary crimp in rising stock prices.

"The bond market would react violently, and this will stop the flow of funds into equities," says Gail Dudack, market strategist at S.G. Warburg Securities.

For now, however, the line of least resistance seems to be on the upside for the stock market, at least until the flood of new offerings swamps demand. Dudack scrutinizes the Federal Reserve flow of funds for S.G. Warburg and has been positively correct on the market's upward direction. Dudack figures the potential demand for equities—if investors hold a historic average of their assets in the stock market—runs somewhere between $827 billion and $1.076 trillion. That much money should keep upward pressure on stocks, not to say feed a few stockbrokers.

Interestingly, something similar is happening in Japan right now, but with less bullish results. Just like the Fed here, the Bank of Japan has radically lowered interest rates several times in the recent past, and reduced the yield available from short-term investments.

"As the overnight call rates come down, individuals are taking their money out of Japanese bank deposits and putting it into stocks," says Christopher Mitchinson, a former Salomon Brothers' Asian-market strategist. Mitchinson, who has called the turns in the Tokyo stock market several times, believes money will begin to trickle from postal savings units into the equity market. It hasn't done Japanese stocks much good yet: Since the end of October 1991 the Tokyo market has lost ground on low trading volume, to 21000. But Mitchinson is convinced that the Tokyo market is due for a bounce.

A big project to build county jails in Texas is about to cost some smart out-of-state investors a lot of money.

"I guess we look stupid"

By William P. Barrett

FRANK BAKER of very rural Pecos County, Tex. (pop. 14,700) heads one of six county-government-created agencies across Texas that issued $74 million in bonds to build six identical 500-bed prisons. The idea: Other, more prosperous jurisdictions in Texas and elsewhere would pay to house their prisoners in the new facilities, creating jobs. But Baker's outfit is on the verge of default.

Default? At a time when crime is hot and prisoner populations are increasing? Fact is that five of the new prisons, including Pecos', have no prisoners and few prospects. "I guess we look stupid," Baker sighs.

So goes what is believed to be the U.S.' largest single effort at jail privatization, the notion that the private sector can develop and operate jails better than government. Among the bondholders are some prominent mutual fund operators, including Franklin Distributors, MFS, T. Rowe Price, Allstate, Merrill Lynch and Shearson Lehman. In October 1989 they snapped up almost all the tax-free 9¾% bonds in one of Drexel Burnham Lambert's last deals before it went bankrupt in early 1990. Franklin alone has $28 million in its High Yield Tax-Free Income Fund.

The moving force behind the deal was N-Group Securities Inc., a small Houston outfit run by smooth-talking brothers Michael and Patrick Graham. Long before the bonds were floated, Michael Graham had a string of civil court judgments against him in Houston. One was for more than $500,000 from a lawsuit claiming that he misused the money of investors. Another lawsuit accused both Grahams of stealing investment opportunities. This and other easily ascertainable warning flags were unknown to counties and investors.

Michael Murphy

The new, 500-bed Pecos County Jail, Fort Stockton, Tex.
Empty.

If nothing else, the Grahams sure knew how to do business in Texas. The law firm of an ex-governor was hired for the prison deal. A former Texas House speaker later signed on as a lobbyist, and the husband of the future state treasurer as bond counsel.

The hurting Texas counties involved—Swisher, Falls, San Saba, Angelina, LaSalle and Pecos—were easy pickings. The Grahams promised these thinly populated counties that they would net as much as $175,000 a year plus property taxes. Nor would the counties be held responsible for the jails, which were to be run by publicly traded Pricor, of Murfreesboro, Tenn.

The brothers appeared at local meetings, extolling the economic benefits of new jails and the vast market for prison cells. They waved an optimistic feasibility study—written by a firm that had never before done such a jail financing study. The jail juggernaut paid several county attorneys and financial advisers more than $10,000 each to "review" the deals. Surprise: They approved. The packaged-deal nature made it hard for individual counties to object. Many politicos were wined and dined at a fancy Dallas hotel in 1989. According to officials, N-Group got more than $2.2 million in bond proceeds.

But as it turned out, the Grahams had no firm commitments for any prisoners from anywhere. The prisons, completed last year, cost far more per bed than publicly built Texas state prisons. Only Angelina, the closest to prisoner-overcrowded Houston, got any inmates at all.

In a bid to get some of their money back, the bondholders have gotten their own fancy lawyers and lobbyists to try to convince the state prison system to bail them out before the bonds default this summer. Canny state officials have reportedly signaled they might—if bondholders take something like a 60% haircut. Pricor (fiscal 1991 revenues, $26 million) has already written off $118,000 in capitalized costs.

Meanwhile, N-Group and the Grahams are under indictment in Pecos County on charges of circumventing state competitive bidding laws on the project, which the prosecutor said included a $6,000 flagpole. Beset by creditors, Michael Graham filed for personal Chapter 11 bankruptcy, bizarrely claiming in sworn testimony he wasn't even sure that he had ever been an N-Group Securities officer or had owned any of its stock.

The moral of the tale: If not the dubious-deal capital of the U.S., Texas remains a lively contender for the doubtful honor.

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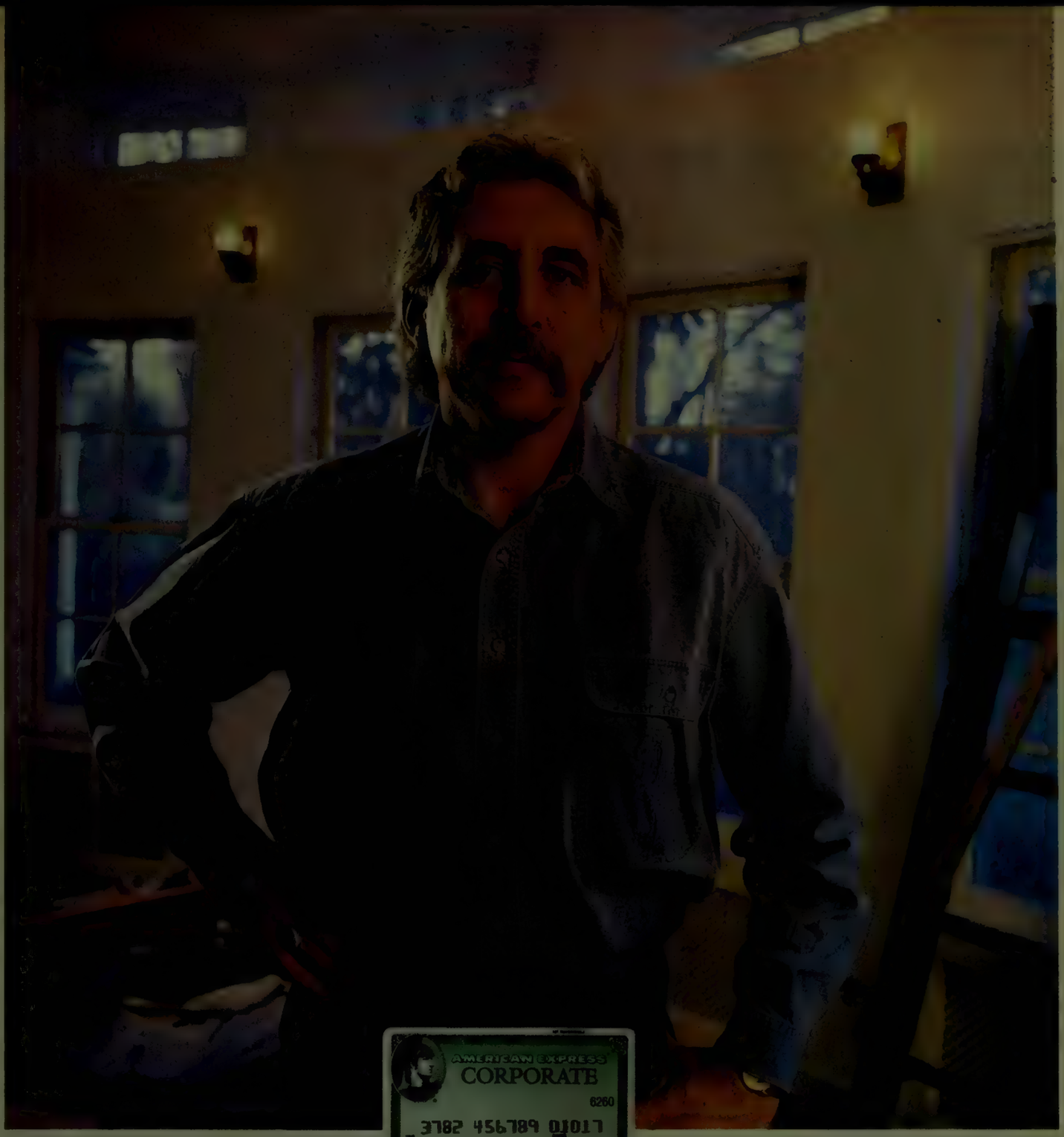

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The long-standing success of the Wall Street Journal has put a veneer of prestige on one of the least venturesome of corporate managements. By trying to avoid risks, Dow Jones has endangered its own powerful franchise.

Dow Jones: a belt, suspenders and elastic waistband

By Subrata N. Chakravarty and Dana Wechsler Linden

WITH ASTONISHING frankness, Peter Kann says: "We're afraid to fail." Since January 1991 the 49-year-old Kann, a former foreign correspondent, has been chief executive of Dow Jones & Co. Kann succeeded another former reporter, Warren Phillips, and was Phillips' protégé and chosen successor.

Kann's confession may come as a surprise to readers of the *Wall Street Journal*. With its lively writing and careful editing, the *Journal* may well be the best newspaper in the U.S. For decades it has been the five-times-a-week sheet that policymakers in both the public and private sectors turn to for information about what is going on in business and finance. Until *USA Today* came along in 1982, the *Journal* was America's only major national newspaper, and even today it is the one most likely to be found on the desks of decision makers from coast to coast.

But here's the paradox: The company that produces this excellent newspaper has been beset by what its chief executive calls fear of failure.

The stock market's judgment is reflected in the price of Dow Jones shares. At a recent price of 25¾, Dow Jones is selling at less than half its 1987 high. According to Morgan Stanley analyst Lanny Baker, its 8.3 multiple of this year's estimated cash flow is considerably lower than Knight-Ridder's 9.8, Gannett's 11.6, Times Mirror's 8.8 and the industry average of 10.0.

Nothing better illustrates Dow Jones' management style than the way it handled the acquisition of Telerate, Inc., one of the leading global purveyors of electronic information. In an era of computers and modern communication, business people can no longer wait until tomorrow morning to find out what happened today. So Telerate was a logical fit with the highly profitable Information Services Group, which grew out of Dow Jones' computer-based news retrieval service begun in 1974.

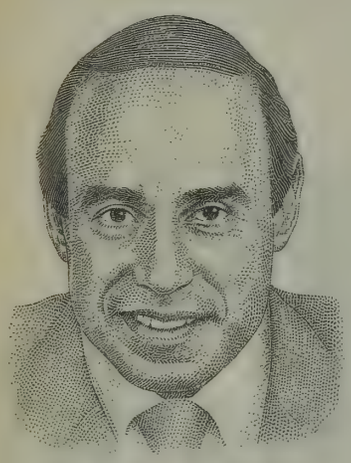
As Kann puts it: "We view publishing these days as far more than running newspapers off the printing press. It's all the multiple forms of distribution of information. The strategy that has existed here for some years is to provide business and financial news and information however, wherever and whenever customers want to receive it."

A sound enough strategy, but clumsily applied. Starting with a $285 million investment in 1985 for 32% of Telerate, Dow Jones gradually increased its stake but did not complete the purchase until January 1990, bringing the total price to $1.6 billion. The amortization of goodwill alone reduces earnings by some $40 million a year. Throw in debt service, and the profitable Telerate has actually dragged down Dow Jones' earnings for the past two years.

William Dunn, 56, was executive vice president of Dow Jones, and head of its Information Services Group until 1989, when he quit after being passed over for the chief executive's spot in favor of Kann. Under Dunn, Information Services grew dramatically. It has contributed more than half of earnings since 1988. Its operating margins have far outperformed Dow Jones' newspaper businesses since 1986. Dunn may have reason to be somewhat biased, but he speaks with considerable authority about events leading up to the purchase of Telerate. Now living in Santa

Fe, N.M., Dunn says that in 1985 a group he led did an analysis of Telerate and recommended buying all of it at once—at a price, then, of nearly $900 million. Top management balked. Too much debt, Dunn was told.

Dow Jones President Kenneth Burenga rationalizes the decision: "Dow Jones is a company that for many years has had a philosophy of being debt-adverse. The way we accomplished the purchase of Telerate not only let us get to know that business, but also saved us having to go out and raise $900 million, which would have been way out of proportion to what we would have considered debt-wise."



Illustrations by Kevin Sprouls

Dow Jones
Chief Executive
Peter Kann
An abundance of charm; but can he bring back the swashbuckling days of Barney Kilgore?

Any business person will recognize the weakness of that alibi. Says Dunn, "I've always had the opinion that the purpose of a corporation is to reinvest its money and be willing to take risks. Otherwise, get out of the goddamn business and move to Santa Fe." By delaying buying the full 100% for five years, Dow Jones found itself out of pocket by an additional $700 million—an amount equal to half its equity capital.

Yet Peter Kann will admit to no regrets. "We are in no way unhappy with the price we paid for it [Telerate]. We are in no way unhappy with the results, and I think we bought it at strategically the right time."

If Kann isn't unhappy, he should be. Why? Dunn says, and Neil S. Hirsch, Telerate's founder (who remained with Telerate until 1990), confirms, that Dow Jones could have bought Telerate in 1981 for a mere $80 million—one-twentieth of what it finally paid.

Asked about the opportunity to buy Telerate earlier, Burenga equivocates. "That was basically back in the very early days, when Neil Hirsch had a vision and was looking for venture capitalists," he says.

That's a damaging admission that Dow Jones was unwilling to take a chance on a promising company with a promising technology; it wanted a sure thing. One pays through the nose for sure things—and doesn't always get what one bargains for.

At any rate, Burenga's memory was faulty. Telerate in 1981 was hardly a speculative venture. It was already a dozen years old, was profitable and was growing very rapidly. In the three years between 1978 and 1981, revenues had almost quadrupled, reaching $27.6 million, while aftertax earnings had grown from under $1 million to $6.6 million. Its *aftertax* margins in 1981 were an extraordinary 24%. Telerate had exclusive rights to the only available quoting system for retail sales of U.S. government securities, still its strength today. Dow Jones should have known all that because a Dow Jones joint venture, AP-Dow Jones, was Telerate's exclusive sales agent outside the U.S. A little over a year after Dow Jones turned down the chance to buy the whole company for $80 million, Telerate went public with a market capitalization of almost $900 million.

Hirsch says he was told that Dow Jones decided against buying Telerate in 1981 because it wished to invest in cable TV. Fair enough; cable was a more established business and proved to be an excellent investment. Yet today Dow Jones is nowhere in cable.

Instead of buying Telerate in 1981, Dow Jones purchased a 25% stake in Continental Cablevision, Inc. for $79 million and sold it for $400 million by 1989. A very handsome profit, but nothing like the $1.5 billion gap between the price it paid for Telerate and the price it could have had it for. The profit in Continental Cablevision was paid for by an opportunity cost many times greater.

But perhaps Dow Jones' diffidence about buying Telerate goes deeper. By staying out in the early stages and then taking only a piece of it in 1985, Phillips and his fellow managers avoided the need to take responsibility for running Telerate in its difficult early days. If it succeeded they would have a good investment; if it failed the damage to Dow Jones' reputation would be less. By contrast, the Information Services Group was built without any partners. Kann admits, however, that in that instance the company had confidence it would not fail.

As it happened, Telerate got into the kind of trouble that afflicts most rapidly growing companies. Its growth outran its management. Its management systems—billing, accounting and legal services—couldn't keep up, service support was neglected, and the company grew less responsive to customer needs. Had Dow Jones involved itself more intimately with Telerate, some of these problems might have been avoided. Competitors—notably Bloomberg Financial Markets (FORBES, *Nov. 25, 1991*)—entered market niches that Telerate neglected to fill.

"Others got a jump start on Telerate," says Dunn. "It put Telerate into a position of having to respond to the competition instead of addressing customer wants. They're playing catch-up ball. They're doing it well, but it didn't have to happen if Telerate had been more responsive" when Dow Jones was a partner.

There are currently half a dozen big players in an electronic marketplace that can support perhaps three. Each has special strengths in a single area—Telerate in U.S. government bonds, Reuters in foreign exchange, Bloomberg in analytic tools, for example. But all are converging by adding services to offer customers one-stop shopping. The winners in the battle won't be determined for years. Telerate may well be one of the survivors, but it has lost precious time and is now one of several instead of a clear leader. To have paid $1.6 billion merely to be one of the pack is, to say the least, inept. The chances are small now that Dow Jones will ever be the clear leader in electronic financial information that it is in print.

Were Telerate an isolated incident, it could be put down to fear of technology. But there is a pattern at Dow Jones

of tentativeness, followed by half moves and, all too often, failure.

It wasn't always so. In its early years, Dow Jones took huge risks to establish itself *(see box, p. 73)*. The *Wall Street Journal* was a fairly obscure publication before the Second World War, reduced by the Great Depression to a shadow of its size before the 1929 stock market crash. Along came a midwestern reporter, the legendary Bernard (Barney) Kilgore, the *Wall Street Journal*'s managing editor and later Dow Jones' president and chairman. He persuaded the controlling Bancroft family of Boston to expand the *Journal* to become the nation's first national newspaper. Brilliantly edited by Kilgore, a sleeves-rolled-up newsman, the *Journal* marched on to glory. Kilgore was an innovator. It was the accepted wisdom at the time that the U.S. would not support a national newspaper because the country was too big and too varied. Nonsense, said Kilgore. Business is a community, giving people from Portland, Me. to Portland, Ore. common interests. He proved it.

With the *Journal* enormously profitable and growing rapidly, Kilgore conceived the *National Observer*. It was designed as a general-interest newspaper without reporters, just a rewrite staff. Its mission was to explain the news, not report it. Just as the weekly *Barron's* kept its costs down by using the *Journal*'s idle presses on Friday nights for delivery on Saturday, the *National Observer* would use the idle presses on Saturday nights. Never mind that it could not be delivered on Sunday, when people had time to read. The important thing was that it was Barney Kilgore's pet project and his last hurrah as chief executive of Dow Jones.

The *National Observer* began publication in 1962. It found loyal readers, but it could not define its audience and therefore could not attract advertising. Still, Kilgore stayed committed to the paper, despite its losses. Warren Phillips recalls: "Bill Kerby, my predecessor [and Kilgore's successor as chief executive], has written that one of the last things Kilgore said to him when he was dying [in 1967] was, 'Is my baby going to make it, Bill?' " Perhaps out of loyalty to Kilgore, Kerby kept the *Observer* going through his tenure as chief executive. It was left to Phillips to shut the paper in 1977.

The *National Observer*'s losses (totaling $16 million) weren't large, especially in the context of the profits pouring in from the *Wall Street Journal* and *Barron's*, but its failure was traumatic. Not only was it Dow Jones' first failure, but it was also the failure of Barney Kilgore, Dow Jones' guiding genius. "Having run aground for the first time in memory, the company would retreat to the kind of cautious conservatism with which it had survived the Depression," writes Edward E. Scharff in his book *Worldly Power: The Making of the Wall Street Journal*.

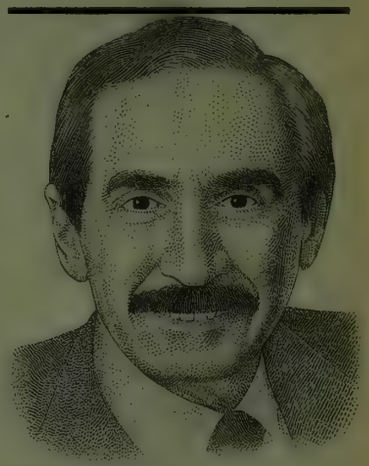
Call it a failure of nerve, perhaps the genesis of that fear of failure that Kann talks about. As a prime example, take the convoluted story of Dow Jones' efforts to launch a glossy magazine. As far back as the early 1970s, consideration was given to turning *Barron's*, Dow Jones' weekly newspaper for investors, into a magazine and likely expanding its coverage to the broader world of business. A dummy issue was planned with Western Publishing, but executives turned pale at the cost estimates.

A magazine printed on glossy paper and using illustrations lavishly couldn't be printed on the *Journal*'s newspaper presses, so *Barron's* costs would rise dramatically. It could not be delivered hot off the press in just one day as *Barron's* was and still is. And there was no knowing when a glossy *Barron's* might attract enough advertising and new readers to make up the difference in costs. After all, *Barron's* was a great source of cash for the company, the argument went, so why mess with it?

Barron's remains today what it was then: a narrowly focused stock sheet with a few additional features and an intensely cyclical readership dependent on the market's vagaries. Its circulation today is not much higher than it was in 1970.

It was a classic management mistake: a refusal to modernize an aging product because of the short-term costs involved. For Dow Jones management, the things that could go wrong consistently loomed larger than the opportunities.

But management did not give up on the dream of owning a successful business magazine. The dummy of a personal finance and lifestyle magazine was produced and then shown to advertising agencies and focus groups in 1981. No go. Neither the agencies nor the focus groups were turned on. Yet much publishing experience shows that success stems not from asking the reader what he wants but from producing a product that the reader wants but didn't know he wanted. Dow Jones thereby missed cashing in on the greatest consumer spending boom in history.



Retired Chairman Warren Phillips **A former reporter, he presided over the best of times—and over the company's descent into self-doubt.**

Two later magazine ideas were scuttled in 1987. One never got past the concept stage. On the other, Burenga says, the company wasn't satisfied with the product and the investment was too risky. Meanwhile, precious years were lost. Instead of bringing out a business publication, Warren Phillips bought out Dow Jones' partners in *Book Digest* in 1978 for $10 million, only to shut it down in 1982. "It was just a fundamentally flawed concept," smiles Kann ruefully. "People who want to read books don't like reading condensations."

This March, Dow Jones plans to test its latest magazine idea, *SmartMoney*, a personal finance magazine aimed at a higher income level than is Time Warner's *Money*. This time, management has provided itself not only with a belt and suspenders but with an elastic waistband as well. It

lined up a partner—to share the profits if any and the onus of failure if any. *SmartMoney* is a joint venture with Hearst Corp., with Dow Jones responsible for editorial content and Hearst for production and distribution. Why share the potential profits of a successful magazine instead of contracting for production and distribution, as others have done? Essentially, says Kann, because Hearst has a proven record in magazine publishing. Says he: "Maybe we're overly imbued with this idea of the *Journal*'s reputation, but we've always kind of worried about doing anything that would look stupid, being totally unsuccessful in the marketplace and tarnishing the reputation of existing publications."

That's far from the attitude that Barney Kilgore had in 1945. Otherwise, he would never have taken a chance at failing when he expanded the *Wall Street Journal* from a financial-district sheet into a national business newspaper—no partners, no hedging, just intelligent risk-taking.

Fidelity Investments is also launching a personal finance magazine, *Worth,* this month, but Fidelity feels the need neither for a partner nor for the out Dow Jones has permitted itself. Fidelity is committed to *Worth* as a long-range investment, but Dow Jones is not yet committed to keeping *SmartMoney* going. It is merely dipping a toe in the water. "We're testing our magazine concept," says Burenga. "We're not committed to a monthly magazine. We're committed to one issue in March. We could go with a second issue as early as the fall if the formula looks like it's clicking. If there's no market acceptance, then it's unlikely you'll get a second issue."

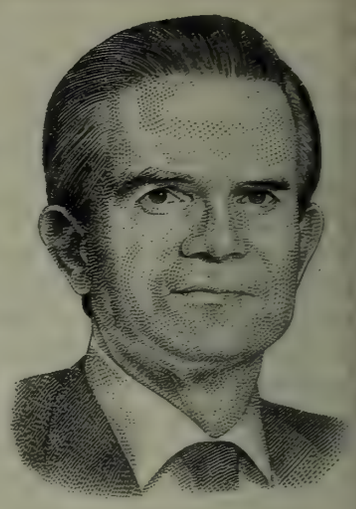
While it gingerly tests the waters of magazine publishing, Dow Jones faces new challenges to its flagship product. The *Journal* is under challenge in a marketplace where the role of newspapers in the distribution of financial information is undergoing drastic change. One important trend has been the massive restructuring of corporate America in the latter half of the 1980s. Layers of middle managers, for whom *Wall Street Journal* subscriptions were routinely purchased by employers, were wiped out. Simultaneously, there was a massive number of business failures, particularly among banks, airlines, retailers and savings and loans. These represented not just readers but significant advertisers as well.

Dow Jones President
Ken Burenga
A no-nonsense numbers man who keeps a close eye on costs—and who will be gingerly testing the waters of magazine publishing.

Journal subscribers and newsstand buyers were down to just under 1.8 million in the Sept. 30 reporting period last year, compared with a peak of more than 2 million for the same period in 1983. The *Journal* has been losing advertising linage since 1984, including a drop of 10.3% in 1991. *Barron's* has suffered similar circulation declines.

Operating income from Dow Jones' business publication segment plunged from over $200 million in 1983 to an estimated $72 million last year, according to Morgan Stanley's Baker—a decline far greater than can be explained by the recession.

Increases in subscription prices, newsstand prices and advertising rates masked the decline until the 1987 stock market crash. Even while circulation was falling, the *Journal*'s national advertising rates rose from $63,000 a page in 1983 to more than $110,000 a page in 1992. The *Journal* may well be pricing itself beyond many advertisers' budgets in these cost-conscious days.



Wall Street Journal
Managing Editor
Paul Steiger
"Seven years ago we were doing one personal finance story a week. We are now doing at least one a day."

Kann acknowledges that fundamental changes have taken place in the *Journal*'s marketplace but believes that changes of such magnitude will not recur. Meanwhile, an end to the recession will certainly bring back some of the lost advertising. Kann says that because of recent cost-cutting, even small increases in advertising will have a big impact on the bottom line. But it is unlikely that operating margins for the business publication segment will ever return to anything like the 30%-plus of the early 1980s.

For the *Journal,* competition has reared its lively head. It is certainly predictable in a competitive society that others should go after the *Journal*'s audience. There are now three new national newspapers: the *New York Times'* national edition, *Investor's Business Daily* and *USA Today.* Collectively, these approach 2 million weekday subscribers. Only a small fraction of these 2 million were weaned from the *Journal,* but enough were to have made a meaningful dent in the *Journal*'s audience. At the same time, there has been greatly increased business coverage by regional magazines and local newspapers, making the *Journal* less required reading.

Wall Street Journal Managing Editor Paul Steiger recalls that when he became business editor of the *Los Angeles Times* in 1978 he had a staff of 22 and a separate section only on Sunday. By the time he left, five years later, the *Los Angeles Times* had 55 business writers and a separate business section each day. Meanwhile, business TV shows and coverage have been stepped up—by no means obsoleting the *Journal* but certainly competing for the time of busy business people.

Peter Kann argues that the *Journal* has broadened its coverage in order to attract new readers to replace those lost as corporations restructured. Management has added new sections covering more nuts-and-bolts topics—marketing, small business, personal finance, technology. But other newspapers, magazines and even TV now cover these topics, too.

Finally, there is growing evidence that in an era when business is becoming international, the *Journal* does not export very well. After 15 years the *Asian Wall Street Journal* has a circulation of 37,000, while the 9-year-old *Wall Street Journal Europe* has a circulation of 52,000. With both foreign editions losing money, Dow Jones has pulled their copy desks back to New York. Burenga claims that the advertising sold overseas for the domestic edition more than makes up for the losses.

Meanwhile, the home market has become vulnerable, at least from a long-range point of view, to invasion by Britain's *Financial Times*. That paper's pink pages are seen these days chiefly in the offices of foreign companies' U.S. offices and U.S. companies with significant overseas business; at $420 a year the *Financial Times* is not for everyone. Nevertheless it has built a U.S. circulation of 25,000. When that number reaches 50,000, *Financial Times* executives say they will have begun to cut into the *Journal*'s core readership in the U.S.

Like the major television networks, Dow Jones' franchise is being threatened, not by one major competitor, but by a growing number of challengers. It's a little like being nibbled by ducks.

Thus, despite Kann's and Burenga's attitude that there is little wrong here that an economic pickup won't cure, there are plenty of signs that Dow Jones has serious long-term problems. Yet Kann has already blown his first chance to put some steel into Dow Jones' decision making process. Last May Dow Jones lost the bidding war for the Financial News Network to General Electric's Consumer News and Business Channel. Even in that deal Dow Jones wasn't going it alone. It had taken as a partner Westinghouse Broadcasting Co. For Westinghouse's broadcasting experience. Of course.

It was yet another failure of nerve, Dow Jones losing out by just $5 million in a $170 million sale. Peter Skinner, Dow Jones' general counsel and the company's point man in the bidding, says that if Dow Jones had won FNN, it would have faced a continuing competition with CNBC. By winning, CNBC now has a monopoly. Since a monopoly is always worth more than a competitive situation, the monopolist will always be willing to pay more, Skinner argues.

Without quite knowing it, Skinner is making an astounding confession: that despite Dow Jones' enormous resources for business news gathering, it was afraid to take on a relative neophyte to the business just because the neophyte had financial clout.

The risks they took

THE 1929 stock market crash and the Depression almost did in the *Wall Street Journal*. Clarence Barron, who had purchased the company from Charles Dow in 1902 with his wife's money, died in 1928, leaving the company in poor financial condition. Then his son-in-law and successor, Hugh Bancroft, committed suicide in 1933.

It was generally assumed that the money-losing *Wall Street Journal* would be closed. Who wanted to read financial news when the Dow Jones industrial average barely inched above 100? The *Journal* was saved, according to Edward E. Scharff, in his fascinating history *Worldly Power: The Making of the Wall Street Journal*, when Barron's adopted daughter, Jane Bancroft, decided to forgo dividends for several years at the height of the Depression in order to keep the paper alive.

Nevertheless, the *Journal* was hardly a financial powerhouse when World War II began. When newsprint rationing went into effect, many papers cut back on news coverage in order to carry more advertising. The financially strapped *Journal* was one of the handful of newspapers that turned away lucrative advertising in order to carry more news. Though an enormous risk, it earned the paper a reputation for integrity that paid off handsomely in prestige, reader loyalty and advertising after the war. Thereafter, Scharff notes, the profits came rolling in.

Perhaps the greatest risk of all came after the war, when the *Wall Street Journal* moved to become the first national newspaper. That was the result of the extraordinary vision of its managing editor, Bernard (Barney) Kilgore, the man who had persuaded management to refuse advertising in favor of more news during the war. After the war, Kilgore talked the owners into yet another bold gamble. At a time when most news—and especially financial news—was thought to be local or, at most, regional, Kilgore urged taking the newspaper national. A journalistic innovator, as well as a risk-taker, he took the view that the news wasn't just what happened yesterday; it was about trends, too. The *Journal* began taking a longer view of what is news—a view widely accepted in the press today.

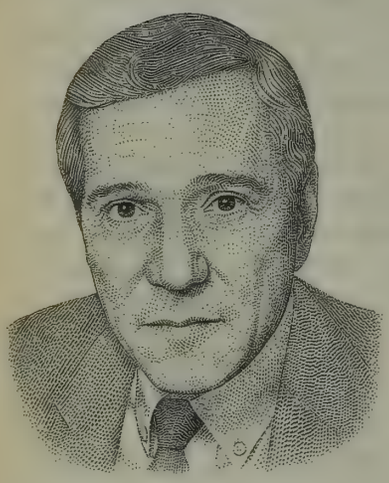
Under Kilgore the *Journal* was the first newspaper to successfully take on the mighty International Typographers Union and its Luddite featherbedding. And, long before the advent of *USA Today*, the *Journal* used satellite transmission to print newspapers at multiple sites simultaneously. As a result, virtually every reader now gets the paper on the same day.

As if to atone for the master's risk-taking, his successors became almost paralyzingly cautious. Dow Jones shareholders have now learned that avoiding risks can be the riskiest course of all.

–S.N.C. and D.W.L. ■

Nor, it appears, did Dow Jones understand the nature of the cable business as well as its rival did. CNBC wanted FNN not because it wanted to create a monopoly but because FNN already had cable outlets tied up in the largest cities with the most affluent customers. CNBC, because it started later, was shut out of those markets. It couldn't even get into Manhattan. CNBC needed FNN because FNN already had a functional monopoly in the markets that business channels must reach. Like airlines bidding for airport gates, both CNBC and Dow Jones were really bidding for cable system clearance rather than for a company. But Dow Jones was nervously counting its pennies, while GE's CNBC had a broad strategic vision.

"I thought FNN was an absolute imperative [for Dow Jones]," says William Dunn. "People kept saying, 'We don't know anything about TV.' My retort to them was, 'You'd better goddamn well learn. You'll get better as you go along. You don't have to know; you can learn.' "



Telerate and Information Services Group President Carl Valenti **The "suit" who must integrate the "long-hair" culture of Telerate into Dow Jones.**

What made FNN so important for Dow Jones was its potential, not its performance. Television news cost newspapers readership in the 1970s and 1980s, as more Americans turned to TV for news. Properly programmed, FNN can be a potent force in business news—one that might some day hurt the *Journal* as a competitor but could have helped it as a partner, particularly in global distribution of information.

It's not that Peter Kann doesn't understand this. "If you look out five or ten years, we'll see [television] is going to be one of the number of significant ways to get information delivered," he says. "FNN was the closest thing to a national franchise and potentially international franchise delivering that kind of information. Television, both live and retrieved, probably will be part of office information systems." But he let the chance pass.

"It's a goddamn shame," says Dunn sadly. "It sets in people's minds that we tried to get into cable once and couldn't. That's deadly when you get an inkling of that in a culture. It doesn't take much to chill a culture."

Can Dow Jones mend its ways and compete in a swiftly changing, cutthroat world? In a way management is insulated from takeover threats. Through a myriad of family trusts the heirs of Clarence Barron control a voting majority of Dow Jones' stock. Up to now the heirs have been highly supportive of management. But, as other dynastic families have found, interests can diverge as families grow larger and further removed from the founder. Family support cannot be counted on forever, but for now an outside takeover seems all but impossible.

It is Peter Kann's unenviable job to change Dow Jones' risk-averse corporate culture. In his somewhat cerebral manner, Kann shows he realizes this: "What one tries to do is, in a whole variety of ways, give people around the company the self-confidence to take more risks, recognizing that in doing that some of the risks will pay off and some of the risks will not." As part of the effort to increase innovation, Kann and Burenga recently set up a $5 million venture fund to support ideas to improve or expand company operations.

Kann has formidable assets at his disposal. Although reported earnings have been depressed recently by problems at the *Journal* and by the heavy amortization charges of Telerate, cash flow remains strong—about $288 million in 1991, according to Baker. With that kind of cash flow and with just $450 million in debt, Dow Jones can afford to maintain its current dividend and yet take risks.

Kann has made some good moves. He and Phillips appointed Carl Valenti, the president of the Information Services Group, to head Telerate. "The job Carl is doing is fantastic and underrated," says Dunn, who still believes that Telerate will eventually emerge as a strong alternative to Reuters on a global basis. Eventually Dow Jones plans to merge the Information Services Group with Telerate, making its electronic information services truly global.

In one move, an uncharacteristically bold one for Dow Jones, Valenti has scheduled the shutdown of Telerate's new foreign-exchange transaction system, known as the Trading Service, which was losing at least $30 million a year. In its place Telerate will invest almost $10 million for some 8% of Minex, a consortium that includes the largest Japanese banks and foreign-exchange traders. Minex is developing an even more ambitious foreign-exchange trading system and Telerate will have exclusive distribution rights to the Minex system outside Japan. In admitting defeat with its own trading service, Dow Jones did at least pave the way for a decisive move. At least one analyst believes Telerate now has an edge in the competition. "The winners in the long run will be those companies with fatter, deeper, broader databases," says Morgan Stanley's Baker, pointing out that Dow Jones has and produces more data than anyone.

But even as Telerate puts its house in order, its competitors are continuing to improve and broaden their services. Reuters is adding analytic services. To counter Dow Jones' and Reuters' large news services, Bloomberg has been building its own innovative reporting staff.

In any event, Peter Kann faces a daunting task. A charming, urbane man who spent most of his reporting career at the *Journal* as a foreign correspondent, he is very much at home in the intellectual atmosphere of Princeton, N.J., where he lives and to which he sometimes helicopters from the *Journal*'s elaborate headquarters in downtown Manhattan. But it will take more than charm and erudition to keep Dow Jones' franchise from further deteriorating. It will take a new boldness and willingness to commit capital. At the moment there are few signs of that at 200 Liberty Street.

No automobile
has ever won
every leading
automotive
magazine award.
Until now.

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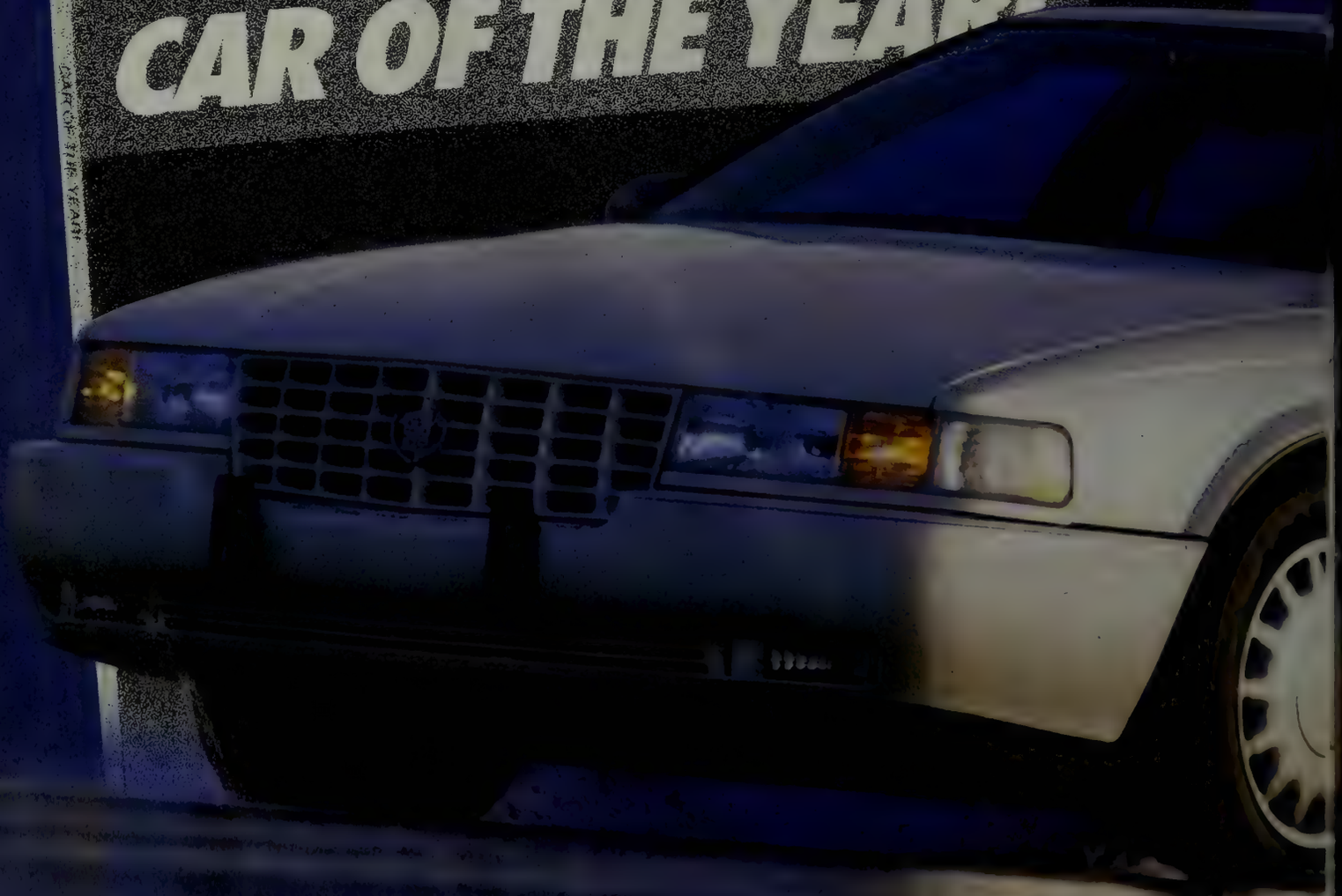

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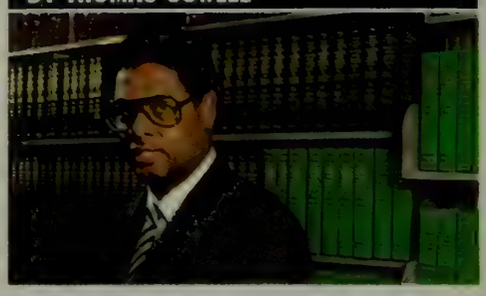
Trying to right the wrongs of the past has become an excuse for evading personal responsibility.

Let the dead bury their dead

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

AT THE TIME of the 50th anniversary of Japan's attack on Pearl Harbor, the Japanese parliament considered apologizing to the U.S. but decided not to. Meanwhile, President Bush apologized to Japanese-Americans for their internment during World War II. In 1992 Spain is supposed to apologize to the Jews who were expelled en masse from that country 500 years ago.

These collective apologies for historical actions taken by others may be seen as grand moral gestures by some, but in fact they exacerbate the already dangerous tendency to obliterate the crucial concept of personal responsibility. What possible meaning does it have, either logically or morally, for someone to apologize for what someone else did to a third party?

Are all people of Slavic ancestry to apologize to all Jews for the centuries of brutal anti-Semitism in Eastern Europe? And are all Jews to apologize to all Slavs for those Jewish slave traders who, in earlier centuries, sold Slavs into bondage from Spain to the Ottoman Empire? What about all the atrocities of the Christians against the Moslems, or the Moslems against the Christians, during their centuries of warfare?

The list could go on and on. Historic wrongs can be found all over the globe. In fact, much of history consists of those wrongs. If all of us started apologizing to each other for all the wrongs of history, the noise would be deafening.

Many of those who emphasize the wrongs of history have a highly selective list of those wrongs, geared toward contemporary ideological politics. Thus, the wrongs of European imperialists against various Third World nations are to be kept alive as enduring grievances and—more to the point—enduring entitlements to largesse. However, the wrongs of any of these nations against each other, or against their own peoples, are passed

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over in silence, no matter how much worse they might have been.

Sometimes the argument is that we need to correct the contemporary effects of past wrongs. Seldom is any evidence either asked for or given to show that we know what those effects are. It is certainly not easy to know.

In many parts of the world, groups clearly mistreated historically have emerged better off educationally, economically and socially than those who mistreated them. The Chinese minorities in various Southeast Asian countries have seldom had equal rights, but they have typically risen from initial poverty to a position where they are better off economically than the majority populations of Malaysia, Indonesia or other countries in the region.

Much the same story could be told of immigrants from the Indian subcontinent who settled in East Africa or in Fiji, or of immigrants from Lebanon in West Africa, Italians in Argentina, and many others around the world. In a number of countries and a number of periods of history, it has been common for particular groups to take over substandard land left idle by others as "wasteland"—and to become more successful farmers than others around them who were farming more fertile land.

We have barely scratched the surface in understanding why some groups prosper, even under bad conditions, or why others fail to utilize much better opportunities. Indeed, a whole tendentious vocabulary has arisen to obscure or bury such questions. Those who fail are said to have been "excluded" or denied "access." Those who succeed are said to have been "privileged." Again, evidence is neither asked nor given. This formula leaves out achievement—or even luck.

Would anyone (other than ideologues or intellectuals) say that Babe Ruth had more "opportunity" to hit home runs, when in fact he was the most walked batter in history?

This strange way of talking is not confined to a few fringe ideologues. It has caught on across the spectrum, and is now part of the mainstream mindset, at least among academics. Retired Harvard President Derek Bok, for example, said that to apply the same admissions standards to minority students as to others would be to "exclude them from the university." This was said more than a century after blacks began attending Harvard, entering and graduating without double standards during most of that time.

Much contemporary discussion of historic guilt is more than moral mush-headedness. Some of it is exploited quite skillfully by people whose careers depend on it. A whole class of "diversity consultants" or race relations specialists has come into existence to promote guilt among students, faculty and administrators at leading colleges and universities across the country.

At the University of Wisconsin, for example, an itinerant race relations specialist evoked "the repentant sobs of white students" at one of his workshops, which promoted the theme that virtually all whites were racists. Similar themes and similar techniques have been widely used, from large universities like Harvard and Tulane to small colleges like Oberlin and Whitman.

Achieving justice in our own time is a task that taxes the resources of even the best societies. We should leave the past in the past. ■

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The Eighties were not kind to most department stores, but May was an exception. Will May's Eighties strategy, though, work in the Nineties?

Business as usual

By Gretchen Morgenson

THROUGHOUT THE Eighties the May retailing chain seemed to defy gravity. Other chains were being destroyed by outlet malls, discounters, designer boutiques and mail order catalogs. But May Department Stores Co. kept growing. During that decade its earnings per share climbed at an average 11% a year. The May chain includes such famous names as G. Fox, Filene's, May Co., Robinson's, Famous-Barr, L.S. Ayres and Lord & Taylor. Combined, these department stores took in an estimated $9 billion in sales in 1991, and Payless, a discount shoe chain, brought the company total to some $10.5 billion.

Now, though, it appears that the grim reality of classic department store retailing has belatedly and powerfully descended upon the May chain. Inasmuch as May now has a recession, as well as the discounters, to contend with, the company's preliminary December same-store sales in its department stores were down 2% from 1989. Investors don't seem to mind; at 55½, May is trading at 15 times trailing earnings.

What May is finding: Consumers may browse the department stores, but they spend at the discounters. This huge shift in the retailing industry has created a glut of selling space—excess capacity. In spite of such well-publicized department store closings as B. Altman and Bonwit Teller in New York and Sakowitz in Houston, U.S. retail space per capita has climbed 10% over the past four years, to 18.2 square feet.

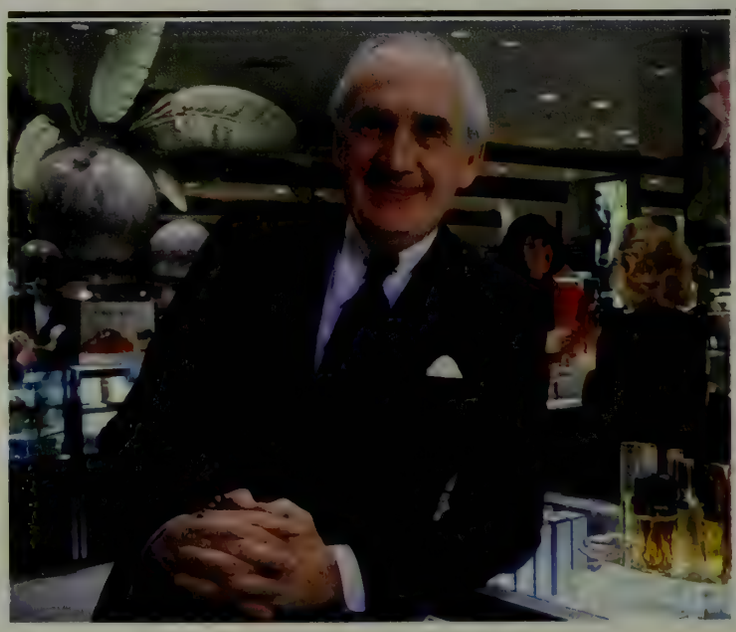
How is May dealing with changing public tastes and habits? Defiantly. Expanding into the glut, May Chairman David Farrell and President Thomas Hays have announced that they plan to spend $1.3 billion to open 85 new department stores before 1995, bringing May's total to 418. Don't worry, the pair told retail analysts in New York in October. Farrell and Hays predict that same-store sales will increase between 4% and 6% annually over the next five years. Earnings, they say, will grow 11% to 13% annually.

Why such confidence in the face of the slump in crucial year-end revenues? May's management is betting that what has worked in the past will work in the future. Farrell and Hays have their own distinctive style. Where many merchants operate on feel—this item is hot, this one is not—they tend to run their business by the numbers. This cold-blooded approach kept May from going berserk during the acquisition-mad 1980s. Two years ago May lost Marshall Field & Co. to Dayton Hudson, because May wouldn't beat Dayton Hudson's price of one times sales for the chain, or $1.1 billion. Instead, May bought 26-store Thalheimers for $317 million, a price that was just 70% of sales.

But does the nation really need 85 new May stores? Carl Steidtman, economist at Management Horizons, a retailing consulting firm in Columbus, Ohio, says there are no gaping holes in May's geography, so expansion will have to come with a certain

Alexander Marcs-Manton

ABOVE:
A May Co. store in Cleveland
Christmas cheer? Not here: December's same-store sales fell 2% from a year earlier.



David F. Kluho

RIGHT:
May's David Farrell
Is he defying gravity or just adding to a glut?

amount of cannibalizing.

In holding the line on prices and expanding, the folks at May are clearly banking on consumers' returning to department stores in droves once the recession is over. Meanwhile, May waits in the trenches, choosing not to skirmish with other stores for market-share gains. During the Christmas season, most big retailers cut prices way back to draw in recalcitrant shoppers; May steadfastly avoided heavy markdowns.

The high prices preserve profit margins but cut into sales. May turned over its inventory 6.2 times in 1991. In itself, that's not bad—it's better than the turnover at Dillard Department Stores and Mercantile Stores, for example—but it represents a substantial decline from the 7.2 times turnover that May's stores had in 1986.

May's margin preservation strategy, while effective in years past, may be out of tune in the Nineties. Says Bernard Sosnick, retailing analyst at Oppenheimer & Co.: "May's been controlling their way to a profit, but can they continue? It's been at a sacrifice to sales, and I don't think that's the way to do business now." Instead, Sosnick points to Dayton Hudson, which has won traffic by discounting. Maintaining market share while times are tight is the only way a retailer can hope to profit when the consumer begins to spend again, says Sosnick.

Why are department stores losing sales while retailers like Wal-Mart and the Gap show same-store sales gains of 5% and 12%, respectively? Elizabeth Eagles, a retail consultant at Creative Marketplace in Stamford, Conn., has interviewed hundreds of consumers and come to this conclusion: "Shoppers believe that by walking into a department store they are automatically going to have to overpay for their purchase."

What happens when the recession is over? Scant resumption of old habits, says Eagles. "Once you've bought at a discount, you aren't likely to go back to paying full price again."

In short, what worked well for May in the Eighties can't be counted on to work now. Where department stores are concerned, business as usual isn't business as usual anymore. ■

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Charles Schwab is the highest priced among the discount brokers. Its boss is betting the customers want a lot more than bare-bones service for their commission dollars.

A touch of class

By Jason Zweig

ALONG WITH THE rest of the retail brokerage business these days, San Francisco-based Charles Schwab Corp. is booming. Its earnings trebled last year to an estimated $1.95 a share and its stock has done even better, rising from as low as 7 in 1989 to a recent 33. With net revenues in 1991 approaching an estimated $570 million, Schwab is the nation's largest discount broker.

But the term "discount broker" needs qualification. Schwab has about 45% of the discount market. Boston's Fidelity Brokerage Services Inc. has about 29%. Manhattan-based Quick & Reilly Group, Inc. has about 12%. Quick & Reilly generally has the lowest commissions; Schwab's and Fidelity's are somewhat higher. While Quick & Reilly charges up to $49 to trade 100 shares, Schwab's fee is $55, a lot less than the $85 and up at a full-service broker like Merrill Lynch.

Like a chain store that offers more service than Woolworth but lower prices than Nordstrom, Schwab has set its marketing strategy on providing service that is better than bare-bones but somewhat short of the hand-holding a full-price broker offers. Founder and Chairman Charles Schwab figures some people will always go to Nordstrom and the die-hard bargain-hunters will keep trudging to Woolworth, but there is a huge and well-heeled part of the market in the middle.

To hold his prices down while still offering a good amount of service, Schwab counts heavily on technology. This enables the firm, for example, to offer round-the-clock service, not just 9-to-5.

Its 1,900 brokers—all salaried, none on commission—take calls in three shifts, 24 hours a day, 7 days a week. Owners of personal computers can trade electronically; in December Schwab did 6% of its volume, or more than 900 trades a day, entirely by modem. And just over 20% of Schwab's trades—more than 3,300 per day—came through Telebroker,

John Harding

Discount stockbroker Charles Schwab
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a service that lets investors get prices and enter trades just by pressing the keys of a touch-tone telephone. Average time for a trade on Telebroker: about 2½ minutes.

While the two other big discount houses offer similar automated services, the full-service brokers won't touch them.

Why not? Wall Street's commissioned brokers, who often earn up to $1 million a year and have egos to match, fear that automated retail trading would affect them the way the Sharps .50 caliber rifle affected the American bison. It threatens their role as high-priced intermediaries between the customer and the market.

With Wall Street reluctant to mechanize its brokers, Charles Schwab is spending big money on technology. The $280 million leveraged buyout of his company from BankAmerica in 1987 generated huge depreciation and amortization, boosting cash flow by a total of nearly $114 million since then. In 1991 alone the discount broker spent at least $20 million on systems development. Schwab's two giant telephone centers, in Denver and Indianapolis, can handle up to 9.5 million calls per year, while the firm's computers can execute up to 70,000 transactions a day.

The danger, of course, is that clients will view Schwab as a faceless machine. "People still like to be perceptively close to their money," says Schwab. So he has opened 48 branch offices since 1989, giving him a total of 158 nationwide, many in small cities like Fargo, N.D.; Greenville, S.C.; Provo, Utah; and Burlington, Mass. Each branch's switchboard takes one call fewer than the number of brokers in the branch, so at least one staffer is always free to help a walk-in client.

In early 1990 Schwab opened an Asia Pacific Service Center in San Francisco whose brokers speak five Oriental languages; its revenues already exceed $1 million. This year Schwab will open a second ethnic office, for Hispanic clients, in Miami.

Charles Schwab's tireless marketing goes well beyond print and television ads. He visits 30 branches a year, treating up to 200 of the best local customers to lunch or dinner. The elevators in Schwab's headquarters do

Matt Cohen

A branch office in New York City

"People still like to be perceptively close to their money."

not just announce the stops; they give live, electronic readouts of stock quotes. Many branches have glass exterior walls, so that passersby can see inside, where a digital stock ticker flickers in a green band just below the ceiling.

Schwab is on the same "asset-gathering" kick as the Wall Street firms. Schwab trades 600 mutual funds and has 8 in-house mutual funds—an equity index, a California bond fund, a Treasury fund and 5 money market funds—with a global index fund coming this year. The Schwab funds manage $8.3 billion.

Schwab even benefits from other people's asset-gathering. Wall Street is herding clients into "wrap accounts." For a fee, say 3% a year, a money manager gives the account personal attention and routes all trades through the customer's brokerage firm. To grab not just the trading commissions but the management fee, too, Wall Street firms are cutting out independent financial advisers in favor of in-house money managers. That is driving the independents into the arms of Schwab's Financial Advisors Service, which holds the accounts, executes trades and keeps the books. Schwab ended 1991 with $8 billion from 3,000 financial advisers, up from $4.2 billion and 1,900 managers a year earlier.

Because wrap accounts are so appealing to busy investors, Schwab may soon begin offering its own wraps, but at discounted fees and without recommending specific managers.

Schwab pales next to giant Merrill Lynch, which has 7 million customers and $435 billion in managed assets, but the discounter feels the future belongs to him.

Back when Chuck Schwab was 12 years old, he bought a few chickens with money he had scrounged from selling walnuts. Within a year he was selling eggs, butchering the chickens and even selling the droppings for fertilizer. A decade later, at Stanford Business School, he learned that his little chicken business had a name: a fully integrated operation.

That's one reason he is willing to spend so heavily to get an integrated operation. But at a giddy 38 times trailing 12-month earnings, Schwab is the richest stock in the industry; Merrill Lynch stock sells at 13 times and Quick & Reilly at 16 times earnings. And, with the kind of service Schwab tries to give, together with its spending on integrating and upgrading operations, there come extremely high fixed costs—operating expenses have just dipped below 90% of net revenues for the first time since 1987. Analyst Larry Eckenfelder of Prudential Securities figures that a 10% dip in net revenue would hack 30% off Schwab's net income. Last August Chairman Schwab sold 375,000 of his 12 million shares.

But for now, who worries? Retail investors, Schwab's principal market, accounted for an estimated 37% of New York Stock Exchange volume in 1991, the highest level in three years. Nov. 18, the Monday after the Dow Jones industrial average dropped 120 points, was one of Schwab's busiest days of the year, with 40,000 trades—and most clients were buying. Schwab notes that retail options volume, a good barometer of speculation, is virtually flat. A bet on Charles Schwab at this juncture is a bet that the good times will roll for a long time to come.

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Why does billionaire Phil Anschutz hang on to the ailing Southern Pacific railroad? Is it stubbornness? Or guile?

"I might be a seller, I might be a buyer"

By Phyllis Berman and Roula Khalaf

PHILIP ANSCHUTZ made his fortune in oil, but he seems obsessed with railroads. In 1984 he bought the smallish Denver & Rio Grande Western Railroad. In 1988 he bought control of the far larger Southern Pacific Transportation Co. The Southern Pacific is sick—its cash flow can't begin to cover its interest payments and capital expenditures—but Anschutz has so far refused to give up on it.

This is very frustrating for Robert Krebs, 49, chairman of the Santa Fe Pacific Corp., one of Southern Pacific's major competitors. In the mid-Eighties the Santa Fe bought SP and tried to merge it with its own line. But the merger was turned down by the Interstate Commerce Commission after intense opposition from the politically influential Anschutz and others.

Krebs still yearns to get his hands on parts of the rival railroad. FORBES has learned that he has knocked on the doors of the two other western rails, Union Pacific and Burlington Northern, to discuss a split-up of Southern Pacific. The plan would give Krebs the old St. Louis Southwestern Railway, which is the crown jewel of the Southern Pacific system. The rest of Southern Pacific would be split between the two other western lines. It would also leave Anschutz with Southern Pacific's 300,000 acres in real estate. Krebs won't comment, except to say, "I've talked to Phil from time to time; I don't think he has any interest in a deal."

True enough, Anschutz will have none of it. Two decades ago, Phil Anschutz parlayed his father's few oil rigs into a large oil fortune. Then in 1984, he bought the Rio Grande railroad for $500 million, $90 million of it in cash.

As owner of the Rio Grande, Anschutz soon found himself involved in some railroad geopolitics. The Rio Grande is a bridge carrier, running roughly from Pueblo, Colo. to Ogden, Utah. At Ogden, Rio Grande and Southern Pacific exchanged large amounts of freight. Had Southern Pacific merged with Santa Fe, the Rio Grande would have been cut out of that market. With the merger blocked, Krebs had to divest one of his two lines. Perceiving the SP to be the weaker of the two, he put it on the block. Anschutz bought the SP and combined it with his Rio Grande under his Rio Grande Industries.

Beyond the original cash stake in the Rio Grande, Anschutz put not a penny more into the deal, though he now controls 71% of the parent company. As a minority partner, Morgan Stanley raised $111 million through the sale of common stock—taking $88 million for its own Leveraged Equity Fund II—and raised another $75 million in a private placement of preferred shares. Morgan's fund got 20% of Rio Grande Industries, reduced to 19% after Nippon Yusen Kaisha, Japan's largest shipping line, acquired 5% of the common.

All of which meant that the Santa Fe now had an additional competitor. Santa Fe's strength is that it has the fastest route between Chicago and Los Angeles. Santa Fe's weakness is that it relies for nearly 40% of its business on intermodal traffic, that is, carrying trailers and containers that move part of the way by other modes of transport. This kind of business carries low margins and can easily be snatched by other railroads. Which is why Krebs would dearly love to have SP's St. Louis Southwestern, known as the Cotton Belt. It would give Krebs a shot at the lucrative nonintermodal chemical business along the Gulf coast.

If he were dealing with anyone other than Phil Anschutz, Krebs might be able to make a deal. The SP has been a continuing headache to the Denver financier. The SP has been generating just $200 million in cash flow (before interest, depreciation, taxes and capital expenditures), far from enough to cover the $300 million a year

SP's owner, Philip Anschutz
Pursuing an elusive turnaround.

minimum needed for capital expenditures and the over $100 million in yearly interest payments.

Moreover, the Southern Pacific has been losing business for two decades. Its traditional traffic—auto parts, lumber and food—has declined. Stable shipments like grain and coal are a very small percentage of its traffic mix, making the Southern Pacific more cyclical than other lines. Add to that the fact that 30% of its carloadings are generated from intermodal traffic. As if the Southern Pacific didn't have enough problems, two chemical spills from its trains last July prompted the California legislature to pass new rail-safety measures allowing the state's Public Utilities Commission to step up its inspections of the SP.

With all these problems, Anschutz maintained last year that he could not afford the 10% wage increases recommended by a presidential emergency board and reaffirmed by Congress, though the rest of the industry deemed the deal fair. Anschutz sought the help of his good friend Bob Dole and convinced Congress to give him an exemption that allowed him to negotiate his own package. Anschutz also got special consideration on crew size negotiations.

Is Phil Anschutz a masochist? Does he enjoy headaches? He could cash out by splitting up the SP. If Anschutz could prove to the ICC that his railroad was no longer viable, the commission would look more kindly this time at some kind of combination. But he's a stubborn man with a huge ego. He doesn't want to admit defeat. He told FORBES: "I said in my original ICC filings that we would turn this railroad around; I'm in it for the long haul."

The SP has so far sold $1.3 billion in real estate to cover losses at the railroad and reduce debt. The remaining real estate is estimated at between $600 million and $1.3 billion. Anschutz says he will keep selling off real estate to prop up the line. He has already paid down much of the bank debt incurred in the buyout and has replaced it with longer-term, secured debt like equipment mortgages.

As for his minority partner, Morgan had thought it could be out of the SP in four years with a nice gain. Morgan does have an agreement allowing it to put its investors' shares back to the parent company in October of this year. But a clause in the agreement gives Anschutz an out if he can prove that the company is financially incapable of making the payments. Having convinced the U.S. Congress that he was in a bad way, Anschutz should have little trouble arguing that he can't afford to buy Morgan out.

In that event, Morgan could offer the shares to Anschutz himself. If he refuses to buy, Morgan could sell to a third party or force a registration of the shares on the public market. Morgan says it's working with Anschutz on various publicly undisclosed financing alternatives, but that come October, all its exit options are open. In contrast, Anschutz says he expects Morgan to be a long-term investor in the SP.

Anschutz is claiming that he intends to fight it out to make his railroad profitable. He recently spoke at a conference on "quality management," telling executives how his railroad is concentrating on servicing its shippers. Never mind that SP is still way behind its competitors, he says improvement is on its way.

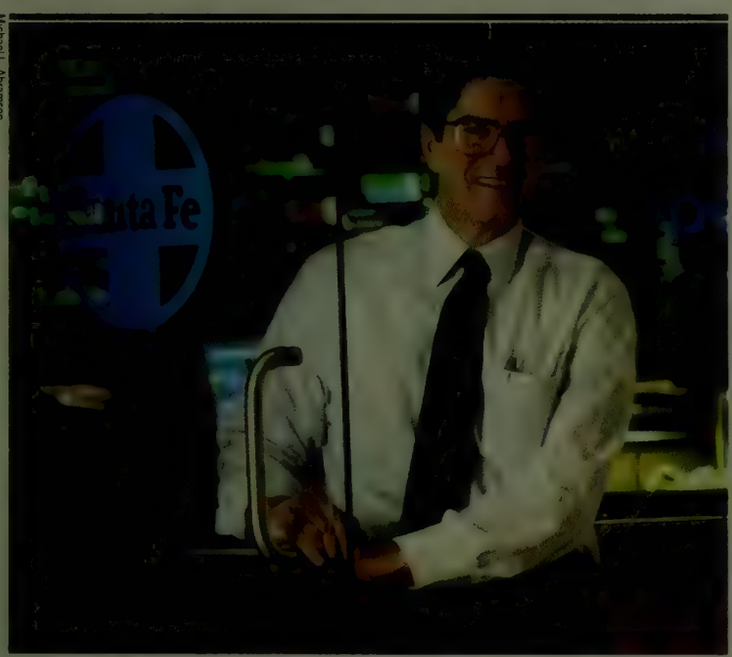
Kent Sterett, SP's new quality expert, who came from Union Pacific, insists that the SP has considerable strengths. For instance, access into Mexico, whose trade with the U.S. is booming. While rival Union Pacific has only three accesses into Mexico, the SP has seven points, thus enabling it to carry auto parts, for example, to be assembled in Mexico and returned for sale in the U.S.

Southern Pacific's locomotives are run down, but Anschutz has been careful to invest heavily in maintaining track. Once service is restored, Anschutz argues, the strength of his route structure will become obvious: The railroad will be better positioned than most to capitalize on the traffic flowing west to east, a trend he thinks will predominate over the next few decades. He admits there will be further consolidation among the western rail lines in the Nineties, but insists that he will be one of the winners.

Anschutz's strategy is a huge gamble. Southern Pacific competes with railroads that are more efficient and far ahead in rail technology and in their ability to respond quickly to customer needs. Much of what SP carries is merchandise rather than commodities, so the SP must also fiercely battle truckers. Anschutz could sell off all of SP's real estate without turning the railroad around. In short, Anschutz faces a near impossible task.

Is he simply being stubborn? Maybe he's stubborn like a fox. The tougher he talks, the higher the price he could get for the SP down the road. There are other potential buyers besides the Santa Fe. CSX, Conrail and Burlington Northern might be interested in parts of the Cotton Belt, for instance, and they have much deeper pockets than the Santa Fe. Another possibility: The SP could merge with a railroad like the Norfolk Southern to form the first coast-to-coast line.

"I might be a seller, I might be a buyer," Anschutz says. "It depends on who looks like a good dance partner."



Michael L. Abramson

Sante Fe Chairman Robert Krebs

He yearns to add pieces of the SP to his line.

NEW AUDI 100 V-6 TAKES AIM AT LEXUS AND ACURA

Audi 100 hits mark as the first automobile in its class offering German engineering at Japanese prices.

BY KARL TREUTLER

Not content to let Lexus and Acura corner the market, Audi is determined to offer the American car buyer something never seen before: German engineering coupled with Japanese pricing.

Aimed directly at buyers interested in the Lexus ES 300 and the Acura Legend, the all-new Audi 100 V-6 comes with ABS and driver's side air bag, the handling and control buyers have come to expect from Audi, and The Audi Advantage: A comprehensive owner protection plan not offered by Lexus and Acura. The plan includes the cost of all scheduled maintenance, even oil changes, for three years or 50,000 miles.*

Here in the States, where the Japanese have made inroads into this automotive segment, Audi knew it would have to hold its ground against the popular Japanese contingent. And in a comparison test conducted by *Road & Track*, it did just that. As they put it, "...this confident 'new' Audi has a distinct voice, and it can roar with the best of the lions from Japan...The Audi (is) rock-solid, running as sound as a Deutsche mark...It's more affordable than the Legend...(and)...has driving personality and road-course character all over the Legend."

When the new Audi 100 was unveiled in Europe, automotive experts there "did a 180"—reversing their perception of Audi vis-à-vis the competition. Given the opportunity to get behind the wheel of a new Audi, those considering a high-line Japanese car may soon find themselves "doing a 180" as well.

For more information on the all-new Audi 100 V-6, call 1-800-FOR-AUDI.

At right, the new Audi 100CS.

Advertisement. *See dealer for details.

When a prescription drug's off patent, all is not lost for the manufacturer. The drug can be repackaged for the over-the-counter market.

Drug wars

By Reed Abelson

POPULAR PRESCRIPTION drugs like Tagamet (for ulcers) and Seldane (an antihistamine) generate huge profits—as long as their patents last. What happens when the patents expire, typically after 17 years? Drug companies are finding ways to keep the profits flowing.

One way is to move the product over the counter, switching its status or creating a less potent version. Gyne-Lotrimin, a nonprescription version of clotrimazole, and Monistat 7, a nonprescription version of miconazole nitrate, are recent examples.

We're talking big business here. Nearly one-third of the $9 billion (wholesale) over-the-counter drug market consists of versions of one-time patented, prescription drugs. Examples: American Home Products' Advil, Upjohn's Motrin IB and Schering-Plough's Drixoral.

SmithKline Beecham and Glaxo are currently preparing over-the-counter versions of their billion-dollar antiulcer drugs, Tagamet and Zantac. Marion Merrell Dow is going through the Food & Drug Administration approval process for an over-the-counter version of its $700-million-plus (worldwide sales) Seldane. If Seldane makes it to the drugstore shelf, says James Callandrillo, an industry consultant for Kline & Co., it could rack up sales of $230 million its first year in the U.S. Eventually, nonprescription Seldane sales in the U.S. should match the prescription version's $500 million sales.

Fortunately, the regulators are cooperating. In the past a prescription drug was considered eligible for over-the-counter sales only when it treated a relatively short-lived condition, like a cold, or an easily recognized one, like a headache. But the FDA recently approved Gyne-Lotrimin, made by Schering-Plough, and Monistat 7, made by Johnson & Johnson's Ortho Pharmaceuticals, to treat vaginal yeast infections—the first time regulators were willing to let consumers treat themselves for a condition they originally couldn't diagnose themselves.

Marion Merrell Dow's Seldane
Will consumers itch to buy it over-the-counter?

Most new over-the-counter drugs find druggists' shelves already crowded. Schering-Plough, which has marketed eight successful switches, stumbled when it tried to sell over-the-counter OcuClear—an eye drop used to relieve redness—which is made from an ingredient previously available through prescription. OcuClear ran smack into Pfizer's Visine, which did the same thing, used the same active ingredient, and stopped OcuClear in its tracks. "They were simply able to beat us," says David Collins, president of HealthCare Products at Schering-Plough.

In general, though, switches have a built-in marketing advantage. When Burroughs Wellcome introduced Actifed as an over-the-counter product in 1982, it pushed the fact that the drug had been the top-selling cold-relief *prescription product*. "Consumers believe if a product was good enough to be a top-prescribed product, it must be highly efficacious," says Terry Stevens of Burroughs Wellcome. Bristol-Myers Squibb's Nuprin had for years been the second-best-selling ibuprofen painkiller after Advil. But when Upjohn decided to launch Motrin IB over the counter, the drug nudged Nuprin back to third place within two years.

For some drug companies, pitching a switch is the first time they've marketed directly to the consumer. So a number of them have allied with experienced consumer marketers. To help it switch a version of Naprosyn, a cousin of ibuprofen, Syntex teamed with Procter & Gamble, which will handle the marketing of the over-the-counter version. Glaxo has an agreement with Sandoz that allows both companies to sell Zantac over the counter.

The drug companies are finding that selling over the counter requires lots of advertising support. But it can revive a declining product. Generic competition had whittled sales of Burroughs Wellcome's prescription drug Actifed to $11 million a year from a peak of $17 million. An effective ad campaign helped the over-the-counter version rebound and hit sales of $62 million within three years.

The biggest test of converting prescription drugs to over-the-counter drugs will be in the $700 million antacid field, should Tagamet and Zantac reach the over-the-counter market within the next four years. They'll be up against Maalox (Rhône-Poulenc Rorer), Mylanta (Johnson & Johnson/Merck), Pepto-Bismol (Procter & Gamble) and Rhiopan Plus (American Home Products). The prospect is enough to give everyone ulcers.

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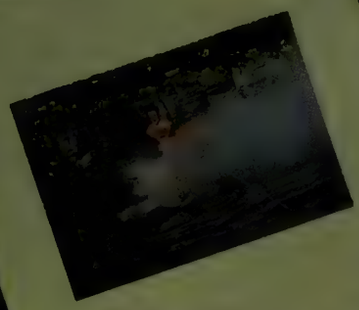

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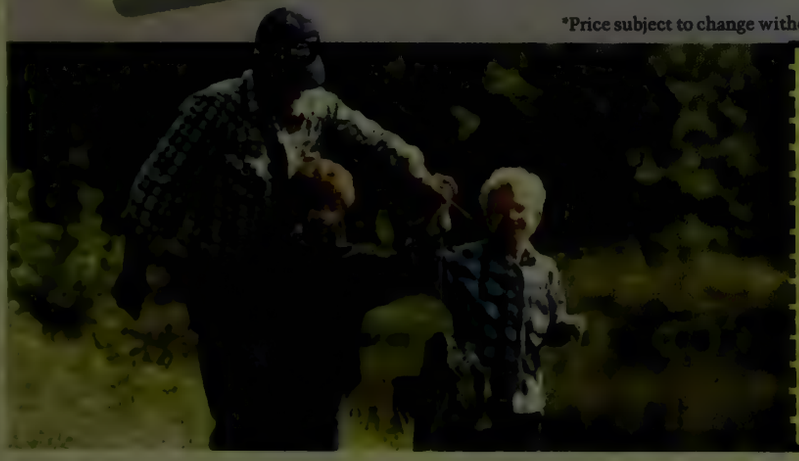

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The fastest computers these days are the parallel processors. But they have an Achilles' heel: How do you write the software?

Parallel thinking

By Kathleen K. Wiegner

THE BATTLE of theoretical speed between single-processor computers and massively parallel ones—those with tens, hundreds or thousands of calculators working simultaneously—is just about over. Parallelism has won. But the contest in the real world of problem-solving is just beginning. For parallel machines to be winners, they must come equipped with software that can harness their power. That is a problem to which the manufacturers of parallel supercomputers—Intel, MasPar, Thinking Machines and NCube—are now being forced to devote a massive amount of attention.

Programming parallel machines has proved a daunting task. Instead of simply giving the computer a problem and saying "solve it," a parallel program must break the problem into pieces. For top efficiency, each processor should have a piece to solve that takes as much time as the problem all its fellow processors are working on. Otherwise it will finish too quickly and sit idle for much of the time. Too, the problem should be divided in such a way as to let each processor work as independently as possible. Having to pass and receive too many messages from other processors wastes time.

The massively parallel folks are divided on how best to achieve these ends. In one approach, the processors are controlled by a single program so every processor does the same thing at the same time on its piece of data. Think of 100 men rowing a boat, all stroking together on the command of the coxswain. This approach is known as "single instruction, multiple data." The earliest massively parallel machines, like the University of Illinois Illiac IV of the 1960s, were built on this model.

Rich Iwasak

Intel's Justin Rattner

"It's not as hard as it sounds. You only have to write one program and assign the data to different processors."

An alternative approach is to give every processor its own bank of data to work on. To follow the boat analogy, this programming approach is like a large sailboat with each member of the crew performing a different task at a different time. Crew members are independent but cooperate in sailing the boat. This approach, known as multiple instruction, multiple data, produces faster results than single instruction, multiple data. The computers developed at California Institute of Technology in the late Seventies using Intel 8086 microprocessors were in this style.

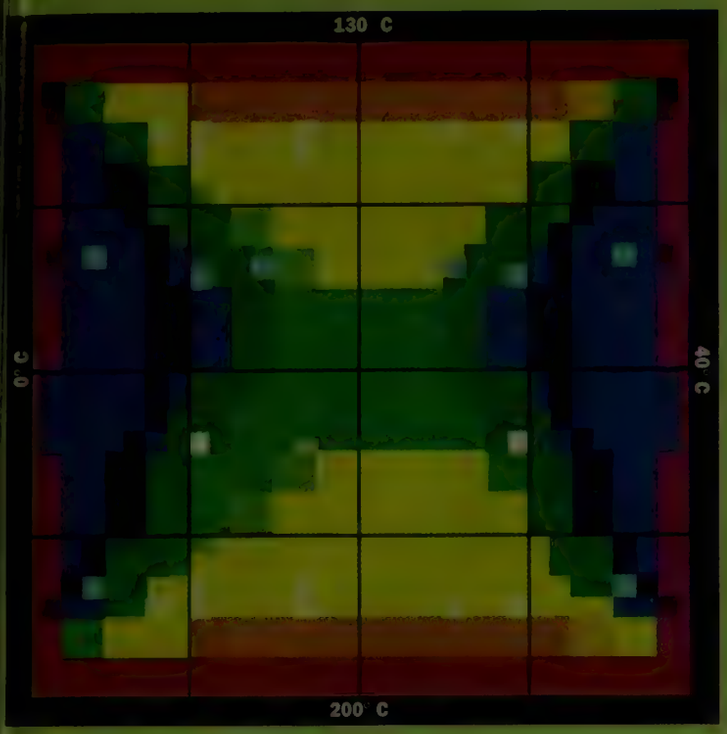
MasPar Computer and Wavetracer (which recently introduced a deskside parallel processing computer) have primarily backed the Illinois approach. They argue that it is relatively easy to program their machines since a programmer doesn't have to think about 500 or 1,000 processors all doing different things. "We don't have a programming model for 500 things happening at once," says MasPar President Jeffrey Kalb.

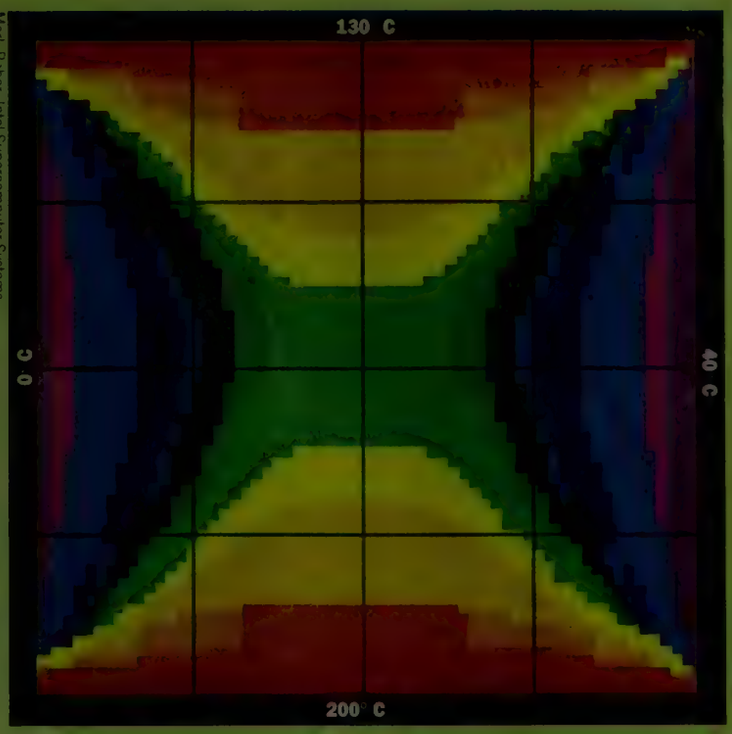
Intel is for the most part in the other camp. Sharing Intel's affection for multiple-instruction, multiple-data supercomputers is NCube (FORBES, *Apr. 2, 1990*). Between them, NCube and Intel had close to 50% of the parallel supercomputer shipments in 1990, according to International Data Corp.

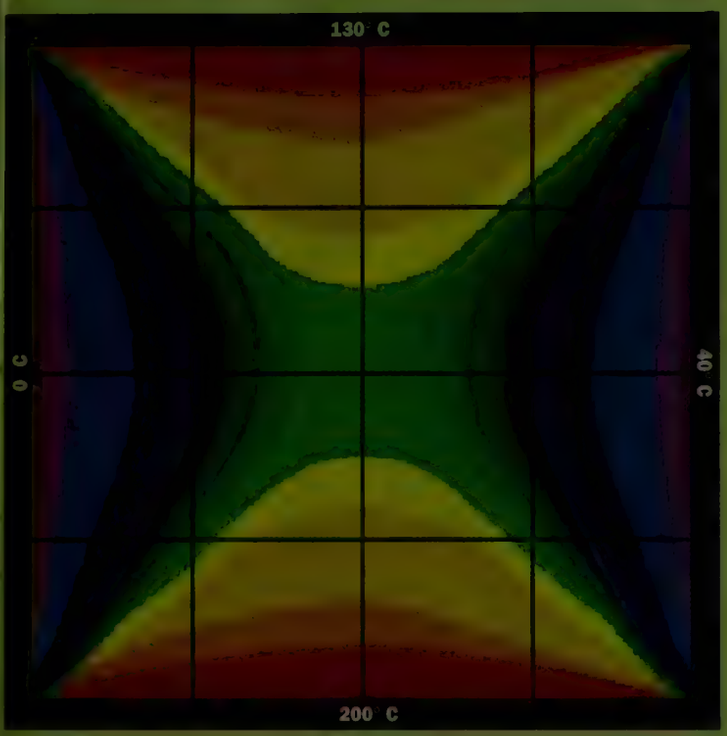
"People who program machines say ours is easier to program," says Justin Rattner, head of Intel's supercomputer effort. "In practical terms it is not as hard as it sounds. In portfolio analysis, the program that analyzes any security is the same, but the data for each security is different. So you only have to write one program and assign the data to different processors. The program tells each processor to evaluate the security and share it with other processors."

Until now the supercomputer makers have been doing most of their boasting by citing hardware specs. Claims of speeds ranging well into the billions of arithmetic operations per second—with promises of trillions to come in the future—are the norm. But the time is now coming for the manufacturers to address themselves to their users' software problems. The speed ratings don't mean much if the user has to reconstruct his applications from scratch in order to use the computer.

Consider the temperature problem illustrated on the opposite page. What's significant in this test program is not the speed at which the processors crunched their way through to a solution. In fact, the superfast Intel i860 chips doing the work ran at far below their maximum speed of 60 million arithmetic operations per second. Rather, what is interesting is that the conversion of the heat program from a conventional, single-processor format to a multiple-processor format was largely automated. Intel software engineer Mark Baber says he started







Mark Baber, Intel Supercomputer Systems.

Teamwork

ENGINEERS AT Intel's supercomputer division are using a classic physics problem to test-run their software for parallel computing. The problem: Given a square hunk of heat-conducting metal whose edges are held at four different temperatures, show what the temperature will be at each point in the interior. The equation that describes the temperature pattern was discovered centuries ago by the French mathematician Laplace. Solving that equation lends itself to computational teamwork because each point in the metal is influenced only by its immediate neighbors. So the computer divides the square into 16 smaller ones (black outlines) and sets one microprocessor to work on each. The processors need share only a small amount of data, at the boundaries between the boxes. The computer gropes toward the answer by replacing the temperature at each grid point with the average of its four neighbors' temperatures, then repeating that process, on finer and finer grids, hundreds of times.

In real life, Laplace's equation might be a small part of a giant problem involving the design of a submarine or the modeling of oil flows underground. ■

with a 1,000-line program that solves the heat equation and then needed to add only 50 lines of hints to the computer about how to parcel the tasks out to several microprocessors working simultaneously.

Sheryl Handler, cofounder and chief executive of Thinking Machines, has an even more dramatic boast for her Connection Machine 5, introduced in October. The machine can organize its work either California-style or Illinois-style, and a Thinking Machines compiler decides how best to parallelize a problem. That compiler—a piece of software that translates a user's program into machine-speak—is a key selling point. So is Handler's boast that applications written for the Connection Machine 5 can also run on a Sun Microsystems workstation or an IBM mainframe or a Cray supercomputer.

To be sure, programs written for the Connection Machine would run considerably slower on a rival brand. But for some users, portability of the sort Handler is talking about is every bit as important as peak performance. In the future, the real battle between the supercomputer manufacturers may take place on a software playing field. ■

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Who pays for data?

COMMENTARY BY ESTHER DYSON

Esther Dyson is editor and publisher of the newsletter *Release 1.0.*

WHEN I FIRST met Donald (Chip) Elitzer, he was a junior investment banker on the Federal Express account, helping Fred Smith take public his crazy idea—a nationwide small-package delivery network with its own airplanes. The crazy idea drank up something like $75 million before it finally took off.

Elitzer, 44, is working on another long shot, this time relating to information delivery. He hasn't landed any funding yet, but he seems to be onto something interesting. He is proposing to create an advertiser-supported home fax network, HomeFax, that would offer free fax machines to individuals willing to release certain information about themselves to HomeFax, which would then pass on targeted pitches from advertisers.

Most electronic information is now delivered in a heavily regulated environment via airwaves, cable and telephone lines. Fortunately, the trend in the information business is toward less regulation. The government, for instance, has belatedly allowed local telephone companies to offer some types of information services; someday it may even allow the phone companies to compete with cable operators in the broader information market that includes entertainment.

Some services now available or being talked about seriously include home video on demand, electronic newspapers and Christmas cards by fax. We will see a lot more creativity in the way information is distributed—and paid for.

Consider the basic question of who pays to get information delivered. Should it be consumers or producers—or all of us, through taxes or indirectly through regulated rates? In the long run, we will be a lot better off with a profusion of new services funded by investors and willing customers, rather than through government mandates.

The Yellow Pages are a data service paid for entirely by advertisers rather than consumers; *Consumer Reports,* the reverse. In television, costs are now split. Procter & Gamble picks up most of the production costs for that sitcom you watch, and for the ads that go with it; you pay some of the delivery costs by purchasing a television set. For cable TV, you pay more of the local delivery costs, including a range of fees; the proportion paid by advertisers varies.

The Prodigy electronic mail and information network owned by Sears and IBM is also a two-way split. You pay a monthly fee (less than cable TV rates), and you pay for the computer, the modem and the local telephone connection. Advertisers pay for long-distance transmission and for operation of the computers at the other end. Sears and IBM are also paying (or investing?) by losing money on the venture so far.

Chip Elitzer's idea, originated by adman Don Peppers of Chiat/Day/Mojo, is a fax-style variation on Prodigy. A fax machine replaces the computer; the primary allure is communications more than information services (for now); and more of the costs are shifted to the advertiser. In return, the consumer makes himself more valuable to the advertisers by providing information about his purchasing plans to HomeFax. He would, however, retain his anonymity; advertisers could get at him only via a fax "mailbox."

HomeFax would limit commercial messages to two pages per day, but it would have enough information itself to offer its advertisers highly targeted audiences of, say, would-be Cadillac buyers or new parents in the market for baby things. For as long as a customer subscribed, HomeFax would give him the use of a "free" fax machine in his home and a "mailbox" in a central computer. In return, the subscriber would agree to receive advertising in the mailbox and to fill in a monthly questionnaire about purchase intentions.

Setting up such a network would entail fairly high costs per subscriber; more than the fax machines, the major cost, in the millions, would be a fax server and startup marketing. Yet at least you wouldn't need a nationwide system to achieve critical mass, as, for example, CBS does; a local system could function quite well. Don't forget that most newspapers contain predominantly local news and local advertising. You don't want to hear from car dealers and supermarkets more than 50 miles away, and they don't care about you. But if HomeFax is unlikely to become a nationwide operation on the scale of a television network or Federal Express, this also means that the idea is one a single local newspaper could adopt and make money on: "Free! with your paid-up subscription to the *Globesville Gazette,* a brand-new fax machine and up to 20 free fax messages per month. All you have to do is agree to receive 2 sponsor messages a day."

Elitzer has knocked on doors at advertising firms, venture capitalists, newspapers, telephone companies and even a fax machine manufacturer, so far without success. Even if he's not the next Fred Smith, though, he is at least getting people thinking. In a deregulated electronic age, there can be radical innovations in information distribution. In some systems, the advertiser may pick up all the costs; in others, the consumer. And note that the advertiser needn't be GM; the advertiser could also be an entrepreneur—or even a consumer advertising his needs to entice sellers to come to him with low prices. ■

The government's approach to the genome mystery is to spend $3 billion and map the whole thing. Private enterprise is a little more selective.

Genomic wildcatters

By Seth Lubove

THE BIOTECH company that can pinpoint disease-causing genes and understand how they spread mayhem in the body stands to make a lot of money by selling this knowledge to drug companies. Armed with this information, a drug company could try to devise diagnostic tests that identify carriers of bad genes and develop new drugs to rescue people from diseases like cancer before they are even sick.

"Mapping" all 50,000 to 100,000 human genes, good or bad, is the mission of the genome project, biotech's version of sending a man to the moon. Congress has yet to authorize the full $3 billion undertaking, but it has appropriated money at a pace suggesting that this is just what will happen over the next 15 years. Is this good science? Or a foolish diversion of resources from other pressing tasks, like making an AIDS vaccine? While the scientists debate that question, private enterprise is approaching the same vast, uncharted territory with very narrowly targeted searches.

The private-sector players in this game include Genmap and Collaborative Research, both Boston-area outfits that are decoding small pieces of the genome, and Applied Biosystems and Genomyx, two California companies that make exploration equipment.

What are they looking for? The human genome—that is, the combined genetic content of the 23 chromosomes—is the equivalent of a 3-billion-character book. Each character is one of the four chemical building blocks that make up DNA (deoxyribonucleic acid). Many scientists believe, though, that 90% of all the DNA is filler that doesn't regulate cell processes and is irrelevant to health and sickness. Thus, the important genes among the DNA strands are like oilfields in a vast continent.

The mission of the genome project is to map the entire continent, not just the good oil prospects. Genmap, by contrast, is a wildcatter, digging into the genome only in the spots where there is likely to be a payoff. Founded three years ago by some venture capitalists and university scientists, Genmap plans to license its gene discoveries to drug companies for the development of diagnostic tests and cures.

Genmap faces some legal and marketing hurdles. First, how do you stake a claim in this uncharted territory? A gene sequence is evidently patentable by the first scientist to decode it. But to just what does ownership of this sequence entitle the discoverer? The discovery's real value may be in giving a drug company insights into what compounds might make good drugs. Can the discoverer collect royalties from the manufacturer of a drug that was indirectly inspired by his discovery but looks nothing like it?

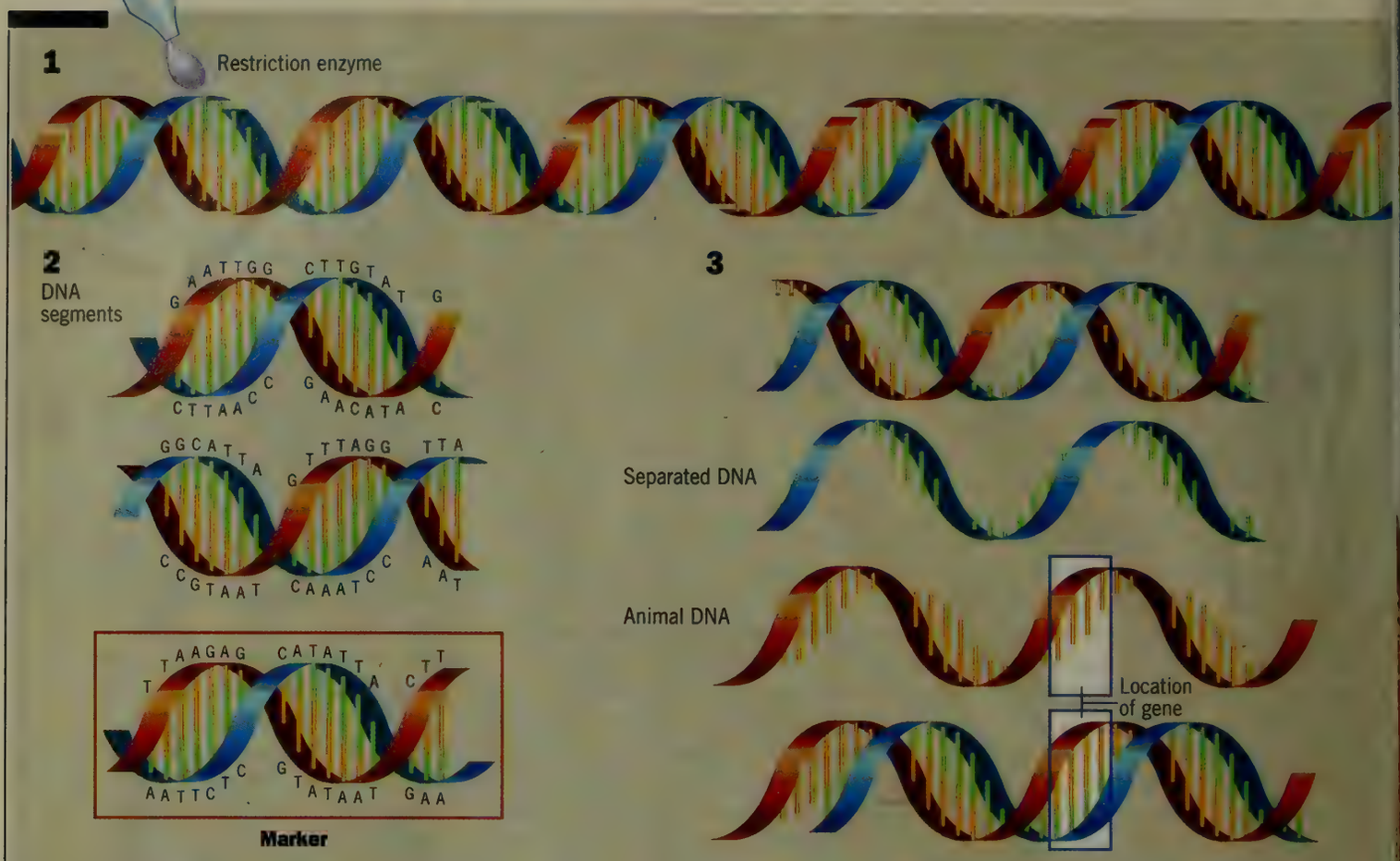
Next, who's willing to pay for the wildcatting when the government is running a taxpayer-financed exploration effort nearby? Says Alan Walton, a venture capitalist whose firm contributed a portion of Genmap's $2.7 million in seed money: "A number of companies have said to us, 'We understand what you can do, but if we just sit on our hands someone in academia will find the genes anyway.' And we say, 'It may be true that someone in academia will come up with something, but you may not have access to it.' " Genmap may end up licensing not a patented sequence but an unpatented business secret, i.e., the proprietary process used to discover a gene. A drug firm customer would get the same data that the government is going to give away someday, but would get the data sooner.

Then there are the technological hurdles. Deciphering genes is like trying to read a huge book in the dark *(see box)*. Worse yet, the pages of the book are randomly ordered, and your

Linc Cornell

Senior Vice President Gerald Vovis and Chairman Orrie Friedman of Collaborative Research

Their work is like proofreading a 3-billion-character book in the dark, looking for a few typos.



Hunting genes

SCIENTISTS at Collaborative Research look for "markers" on a chromosome. These signposts bracket DNA regions thought to harbor mutations. Markers are found by comparing chromosomes in families known to carry genetic diseases.

The researchers use restriction enzymes to snip off fragments of DNA, enabling them to isolate the target gene to a range of 10 million to 100 million units of DNA (#1). The DNA is then inserted into a bacterium or yeast cell, where it replicates much as it would naturally in a human cell. This amplifies the sample of DNA so it's easier to analyze.

From here, the researchers take the duplicated DNA fragments and look for the ones that show the distinctive markers of the area they want to target (#2). The next step is to apply a chemical that breaks apart the double helix.

A collection of DNA from other animals is added to the soup (most human genes are similar to those found in other organisms). At this point, the reseacher can identify the genes on the human DNA based on the animal genes they cling to (#3).

The final step is sequencing, the discovery of the individual units—adenine, cytosine, guanine or thymine—in order. This is done with the help of X rays. Once the sequence of a normal gene is learned, it's compared with that of an individual with the disease. —S.L.

job is to find a handful of letters somewhere in there, then figure out which letters are missing. The one in every 2,500 Caucasian newborns who suffers from cystic fibrosis, for instance, has a gene that makes mucus too thick to be carried out of the lungs properly, thus spreading bacterial infections. The genetic flaw, it turns out, consists of as few as one incorrect character in that massive book.

Genmap says its technique shortens the length of time it takes to find a gene by speeding up the stages between finding the chromosome markers and finding the disease-causing gene. For now, Genmap is focusing its prospecting on chromosome 17, where genes that cause breast cancer and schizophrenia are located.

But the more immediate payoff is likely to go to companies such as Applied Biosystems, a Foster City, Calif. manufacturer of equipment used in DNA sequencing and analysis. Giant drug firm Hoffmann-LaRoche, which recently paid $300 million to Cetus Corp. for the rights to biotechnology's version of Xeroxing, the polymerase chain reaction, is also going to make money off the genome hunt. Another firm, Genomyx, of South San Francisco, is developing a machine that will speed up the sequencing process.

Collaborative Research, meanwhile, aims to make a profit from gene hunting someday, but while it waits for corporate sponsors, it is making a business out of diagnostic tests for cystic fibrosis and some cancers and kidney disease, according to Chairman Orrie Friedman.

If it's looking for ways to save money, Congress could do worse than let these speculators have the genome to themselves for a while, to see what they can turn up.

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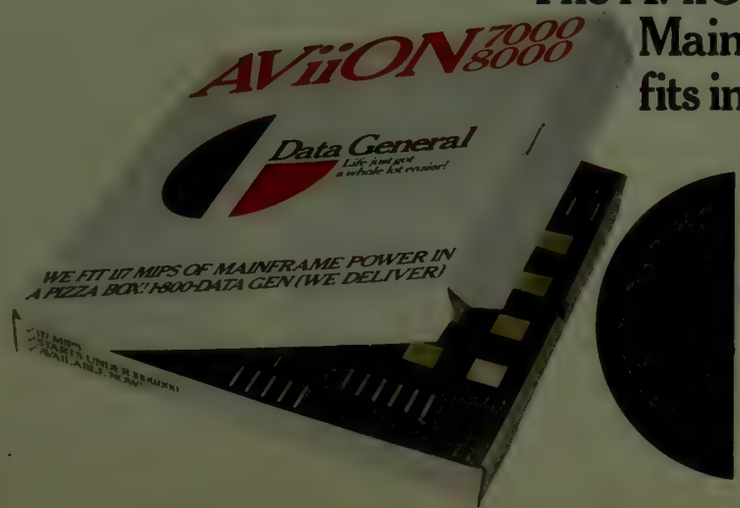

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Still bullish on biotech

COMMENTARY BY MICHAEL GIANTURCO

Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

THE DEC. 11, 1989 installment of this column identified seven promising biotechnology stocks on the basis of their earnings growth projections. One of these stocks, Cetus, has since been bought out by Chiron at essentially no gain. Even so, the average appreciation for the group of seven is approximately 190%.

My column for Sept. 17, 1990, appearing not long after the Kuwait correction, was entitled "Bullish on biotech." The point was that, at a time when other technology stocks were doing very badly, the biotechs had lost least, and the astonishing Amgen had even gained 10%. These stocks, having held up so well, stood to gain the most. In its tenth year the biotechnology industry was poised to launch eight new products—fully as many as it had lofted in the entire preceding decade. These new products and growing revenues from existing products drove the spectacular stock market success we saw in the biotech group in the past two years.

A side effect of the boom in these stocks is that Wall Street is striving to create more of them. Well over $2 billion was raised for biotech ventures in 1991.

But now what? We have all seen speculative bubbles before, and we all know what they lead to: the big poof. We are in fact being strenuously reminded by the financial press of what can happen. It would seem the latest subindustry to grow up in the shadow of the biotech stocks is the business of predicting their imminent demise. This bubble, we are told, must pop.

I don't doubt this wisdom, but I cannot agree that the time is nigh. The bear's case is largely just technical. The stocks have gone way up—therefore it's time to discover reasons for them to go back down. For example, since the runup was largely based on new product introductions, biotech bears are quick to point out that the flow of new products through the federal review process has been occluded by bureaucratic bottlenecks. Well, sure—and what else is new? A better argument is renewed competition, in 1992, from other stock groups like the computer stocks, which are now very attractively priced. This is a good point, but it hardly pushes the biotechs over the edge of a cliff.

Biotechnology has three things going for it, and they are all steamrollers: product diversification; the born-whole nature of the technology itself; and an enormous but hidden capital investment, layered into this science over a period of many decades and now finally paying out.

The diversity in biotechnology means that it isn't just one central technology like, say, the computer business. The end products are proteins, and there are thousands of them. A bad year for pesticides could be a great year for chemical processing enzymes or for a particular vaccine.

The second plus is the technology itself. We are living, according to the American Association for the Advancement of Science, in the golden age of biology. Molecular biology is to the second half of this century what nuclear physics was to the first. But the payout—the profits from the technology grounded on this new and highly developed progress in one science—has begun to surface only in the past two years.

Biotechnology is golden because it never has to create any products. The technology consists of various tricks that can be used to pull off the shelf already finished and tested products—fantastically efficient protein molecules already fully developed and finely elaborated by nature over the past 4 billion years. All we have done in this field so far is thumb open the product catalog here and there. You can safely regard the recent product successes as merely a sampler from an immense catalog.

The concept of hidden capital investment is this: It is true that investors have been pouring money into biotech ventures lately, all in the hope of capturing "another Amgen." In fact, the very term "another Amgen" has now supplanted "another Xerox" in the routine sales palaver of the stock market. But long before this recent surge of capital input, and over the span of many decades, investment has been loaded into biotechnology from the government, foundations, private funding sources and the pharmaceutical industry. It is this long-term investment by society in this signal new science that is driving the biotechnology companies' success. Gradually, over two generations, we have cocked a catapult.

The payout in biotech was slow in coming. It has taken us since 1952 to finally see substantial profits from commercial biotechnology. In these 40 years, simpler technologies (semiconductors, notably) have bloomed, boomed, lost their novelty and turned into commodities. Biotechnology, because it is so deeply complicated, has only now begun to make its run. We may see a selloff on these stocks, but the idea that they are an overnight success or a purely speculative bubble is completely absurd. On the basis of the energy, intelligence and capital invested over four decades in this group, the biotechs have a very long and fruitful payout period ahead of them. Even at current prices, but even better on dips, *Amgen* (76), *Chiron* (70), *Biogen* (42), *Genzyme* (63) and *Immunex* (60) look like excellent long-term bets. ■

"I hear you made a breakthrough in the lab."

"That's right. No one's published on it yet."

errific! You'll be the first."

"Looks that way. I even checked patents."

This is going to be really big."

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Silver lining: The recession has created great values in many luxury goods.

Straw hats in February

By William G. Flanagan and David Stix

A WEALTHY FRIEND of ours rejoices every time taxi fares go up in Manhattan. "It makes it much easier for me to get a cab," he says. In that spirit the recession and the slump in prices are blessings for those still solvent.

■ Housing. Not only have home prices dropped again this year in many areas of the country (especially the Northeast) but so have mortgages—from 9.66% to 8.36% for a 30-year fixed-rate conventional mortgage. Between lower rates and lower prices, your mortgage cost of home ownership could drop by one-third.

At the Crystal Tree development near Chicago, town houses priced a year ago at $200,000 to $390,000 sold for 20% to 30% less at a November auction. With today's mortgage rates and a 20% down payment, monthly payments would be $1,776; based on last year's prices and last year's mortgage rates, the payments would have been $2,660.

In the Los Angeles area, four- to five-bedroom homes on half-acre lots in Camarillo, 8 miles from the beach, were originally priced in 1989 at an average of $550,000. At a recent auction, they went for a little over $400,000.

Mansions and estates, too, never quick movers, can sometimes be had for half their asking prices. Take the former Sears estate, a 16-room mansion on 6.1 acres of Lake Michigan shorefront. Advertised at $4.7 million, it recently went for $2.1 million.

Prices for vacation homes have likewise dipped in some areas of the country. In Vero Beach, Fla., Seaquay condos that once sold for $600,000 to over $1 million have been fetching $425,000 to $550,000. In early 1991 at Trump Plaza of the Palm Beaches apartments were selling in the range of $180,000 to $550,000, down 30% from a year earlier. (By the way, the price of Trump Castle junk bonds has risen from 28½ to 49 in a year.)

In New York's Hamptons area, real estate broker Tina Fredericks recently sold a contemporary, four-bedroom house in East Hampton for $728,000. It had been listed at $895,000. "There's one East Hampton house available, on the ocean, which started at $6.5 million," she notes, "but it could probably go for $3.5 million."

The old Sears estate, offered at $4.7 million, sold for $2.1 million

Some of the best real estate bargains are at the very high end.

■ Okay. So you don't want to buy a new house. How about a discount vacation?

Europe is on sale this winter. There are special deals from New York to London on American Airlines, for example, for as little as $338 round trip, versus last year's best price of $428. The normal coach fare is now $499, versus $538 a year ago. The best Los Angeles to Paris fare you can get now is $478; a year ago there were no such specials, and the regular coach fare was $814. (There has been no cut in first-class fares, however. It's still $6,846 Los Angeles to Paris, and $6,410 New York to London.)

■ Broadway. Cheapest seats for *Miss Saigon, Phantom of the Opera* and *Les Misérables* will drop from $30 to $15 as of Mar. 9. *Saigon* lowers highest prices of $100 for front mezzanine to a new highest price of $65.

■ Camcorders. Sears' LXI model cost $999 two years ago; now it's $699 and has two lenses instead of one, a 10-watt light instead of none, and other new features.

■ Cellular telephones. Motorola's MicroTAC listed for $3,495 in 1989, $2,495 in 1990, and now ranges from $795 to $1,700, depending on features, accessories, etc. And prices are widely discounted.

■ Clothing. Giorgio Armani goes mass market, opening 21 A/X Armani Exchange stores across the U.S. to sell cheap weekend wear, with 80% of goods priced under $100—T shirts start at $37.50, jeans at $58, etc. At a regular Armani store, men's suits go for $1,800; slacks, $400. Note: In a terrible year for retailers, the Gap, Inc., which sells inexpensive stuff, had a banner year; its stock rose 224%.

■ Cruises. Europe and the Caribbean are down for the coming summer season; Alaska and the Pacific are up. "I expect we're going to see some pretty substantial discounts" on trips to Europe, says Michael Grossman, president of Cruises of Distinction in Montclair, N.J. One harbinger: An outside cabin on the *Royal Princess* for a 12-day Mediterranean cruise starting in May ran $5,090 last year, including airfare. Right now it's $4,990; further reductions are likely.

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If it had less legro
and cost thousands m

Logic would seem to dictate that when you pay thousands of dollars more for a ca you should get a lot more car. Apparently, in the case of the Cadillac Sedan DeVill versus the Chrysler Fifth Avenue, logic does not apply. Both cars provide ampl room for six, air-conditioning, automatic transmission, automatic load leveling stereo sound system, fully reclining seats, all as standard equipment. Both offe safety and performance. A driver's air bag is standard on the Chrysler Fiftl

*Standard equipment levels vary.
Legroom comparison to Cadillac Brougham. †Excludes normal maintenance, adjustments and certain wear items. See limited warranty at dealer. Some restrictions apply.

, a lesser warranty, , it could be a Cadillac.

Avenue, as is a powerful fuel-injected, 3.3-liter V-6. Anti-lock brakes are also available. Here, however, is where logic totally falls apart. The restyled Chrysler Fifth Avenue costs thousands less, yet it has more legroom than the largest Cadillac.* And it offers a better warranty: bumper-to-bumper protection for 5 years or 50,000 miles.† So if you're looking for a great luxury car, defy logic. Pay less, get more.

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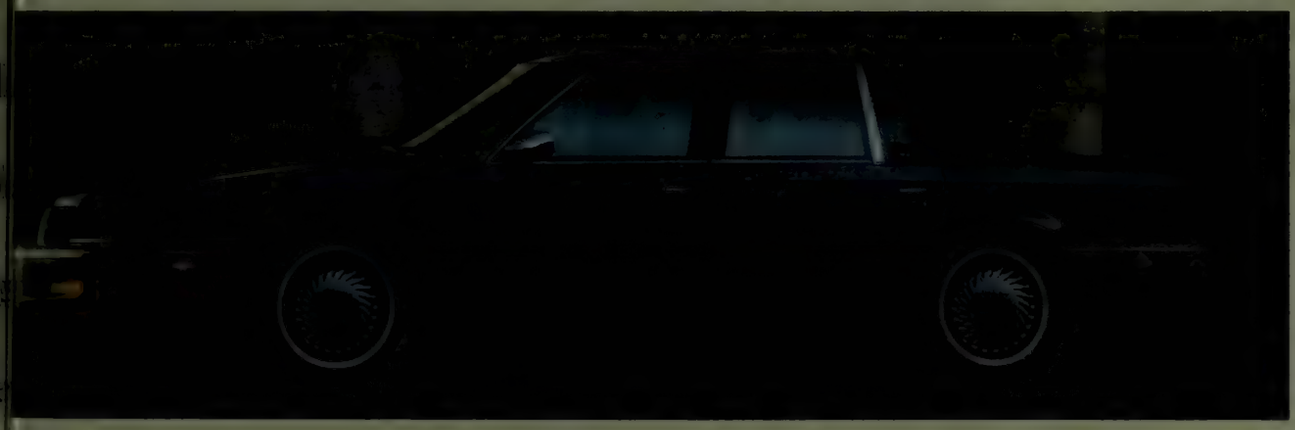

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containing 1 ounce of gold, $369 versus $386 last year; Krugerrand, $357 versus $376.

■ IBM stock. $94 versus $115 last year. Also, IBM's employee head count dropped about 20,000, to 353,000 at the end of 1991.

■ Personal computers. NEC 386-SX, with color monitor, 2MB of RAM and 42MB hard drive is $899 at Penta Computer in New York; one year ago similar clones went for $1,995. Notebook computers are also getting cheaper fast. A Texas Instruments TravelMate 3000, for example, with a 40MB hard drive and 2MB of RAM, listed for $5,999 in 1990. Today it goes for $2,349 or less.

■ Peripherals. List price for Hewlett-Packard's DeskJet 500 printer (near laser quality) was cut in October from $729 to $599. Its scanner, the ScanJet Plus, was cut in June from $2,190 to $1,590.

■ Television sets. A Sony 32-inch color TV at Sears sold at the end of 1990 for $1,999; a similar model is now $1,499. An RCA 35-inch color TV, introduced in mid-1991 at $2,199, is now $1,999—including a $200 TV stand.

■ Used boats. Some dealers report new-boat business is off over 90%. Peter Schmidt, a yacht broker based in Boston, says that prices of large, used power boats have dropped 15% versus a year ago—when they sell. Some of his recent sales: A 46-foot, 1979 Bertram sold for $105,000 versus $160,000 last year; a 47-foot, 1986 Davis sold for $275,000 versus $325,000; a 43-foot, 1985 Hatteras sold for $205,000 versus an initial asking price of $269,000 a year ago. The Boston Boat Show was canceled in 1991—dealers couldn't afford to carry the inventory to show them.

■ Waterford Crystal. New Marquis brand is 30% cheaper than regular Waterford. Ten-inch Marquis bowl retails for $125, while regular Waterford starts at $195. (Marquis ware is made in Germany, not Ireland.)

If you are short of cash and want to take advantage of some of these bargains, no problem. Your stock portfolio is probably way up in value, and the cost of brokerage loans is down. At Merrill Lynch now, the rate is 7.5% for amounts of $100,000 and up, versus almost 10.5% a year ago. ■

Ken Hakuta made a fortune on a fad and bought one o the world's great collections of Shaker furniture. The folks who sold it to him wish they'd found another buyer

Selling toys to buy toys

By Christie Brown

KEN HAKUTA, host of the PBS television program *The Dr. Fad Show,* made $20 million selling the Wacky Wallwalker, a sticky, octopus-like rubber toy that walks down vertical surfaces. He's no less shrewd when it comes to collecting. Just ask the folks at the Darrow School in Mount Lebanon, N.Y., a coed boarding school.

Darrow owned 2,500 pieces of Shaker furniture and artifacts, the remains of a Shaker village that thrived from 1787 to 1930, when the village was sold to the school. Hakuta bought the collection lock, stock and clothes pegs for $600,000 in 1990. "For the price of a third-rate impressionist painting, I got an entire culture," exults Hakuta.

Everything the villagers made c used at Mount Lebanon is included i Hakuta's extraordinary haul, one c the largest and most important Shak er collections in the country. Gather ing dust in a warehouse next to Haku ta's toy factory in Laurel, Md. ar more than 100 massive pieces of fur niture, such as a 15-foot pine work bench, walk-in closets, cupboards grain bins and looms. Scattere among these are thousands of smalle items, like seed boxes, farming tools handwritten hymnals, clothespins clay piping, and even 50 tomb mark ers that the Shakers took out of th ground before the few remainin

Everyday items once used by the Shakers at Mount Lebanon, N.Y.
A small part of Hakuta's haul, trucked off from the Darrow School.

embers sold the land and buildings 1930.

The Shakers have long fascinated e world. Named for their frenzied ligious dances, the sect was founded 1772 by Ann Lee, an illiterate nglishwoman from Manchester. She as called Mother Ann by her follow-s, who believed she was the reincar-ation of Christ. The Shakers be-ved in nonviolence, communal liv-g and celibacy. (The only way the haker population could grow, obvi-usly, was through recruitment.) Per-ecuted in England, the tiny religious roup moved to Watervliet, .Y. in 1776. There they rew converts and adopted hildren.

The village at Mount ebanon, started in 1787, ecame the lead ministry of he church. By 1850 there ere more than 6,000 embers living in 19 vil-ges from Kentucky to aine. Hard workers, the hakers were known for the imple, well-crafted chairs, oolen cloaks and herbal edicines that they sold in illage shops. However, the umber of converts began o dwindle after the Civil ar. Today only a few hakers live at the villages f Canterbury, N.H. and abbathday Lake, Me.

Hakuta was first drawn o Shaker furniture because f its stark simplicity, which eminded him of Oriental rt. Raised in Japan, Ha-uta, now 41, went to work for the World Bank and then got an M.B.A. at Harvard. Soon after, he started his own business exporting cat food to Japan and importing karate uniforms from Korea. Then, in 1982, his parents sent over a rubber octopus toy for Hakuta's sons. Hakuta bought its worldwide rights and suddenly became rich selling over 230 million of the things.

Hakuta became a major collector almost as quickly. It all started innocently enough in 1989 when Hakuta bought a Shaker worktable through Willis Henry Auctions, one of the best-known Shaker dealers, located in Marshfield, Mass. Each summer or fall the dealer stages a major sale in an old Shaker village. Over the years, Henry had also brokered a small but steady stream of valuable Shaker pieces owned by the Darrow School, which sold them to pay bills.

Soon after his first purchase, Hakuta spent nearly $500,000 for three big Shaker pieces—a tall clock, a cupboard and an alphabet board—all from the Darrow School. He put them in his small Washington, D.C. living room and turned down an offer to buy two more. "I figured I had enough," says Hakuta.

Wallwalker promoter Hakuta with Shaker cupboards in Maryland warehouse
"For the price of a third-rate impressionist I got an entire culture."

But it was a whole new ball game when the school board contacted Hakuta later in 1990 and offered the entire collection for sale. It was appraised by Sotheby's at $1.3 million. Darrow was looking for a single buyer who, for half the appraised value, would leave the collection intact at the school's 22 buildings. "The idea was that I would hold it for five or ten years and then find a benefactor who would buy it from me and donate it to the site," says Hakuta. In short, the school wanted to sell its collection and have it, too.

Troubles began almost immediately. Hakuta delayed his scheduled payments because he says the school blocked him from consolidating the scattered collection into one building. Not true, says Darrow's board chairman, Earl Samson III. "The school needed the funds to operate. Mr. Hakuta used that knowledge to negotiate away the need to keep it on site." After months of bitter wrangling, in July of 1991 Hakuta paid the balance of the $600,000 and carted everything down to Maryland.

So what does a collector do with the inventory of an entire Shaker village? Hakuta is lending some works to public collections at the Hancock Shaker Village in Pittsfield, Mass. and the Shaker Museum & Library in Old Chatham, N.Y., while planning his own museum in Washington. "Until I can accomplish that, my goal is to sell enough toys so that I don't have to sell these toys," says Hakuta.

Darrow's chairman, Samson, is understandably bitter that the collection is lost to the school forever—and at a price far, far below what it could have realized at auction.

"If we had known how the whole transaction was going to shake out with Mr. Hakuta there is no way we would have gone that way. We would have tried to find someone else," he says ruefully.

All dressed up

THE QUESTION lingers: Did William Adams save his company from unsavory raiders, or save his job at shareholders' expense?

Adams, 57, chairman of Armstrong World Industries, is the guy who successfully lobbied the Pennsylvania legislature to keep Canada's Belzberg brothers away from his company after they scooped up 11.5% of the stock in 1989 and 1990. The Belzbergs never made a formal bid and eventually sold most of their position to a new employee stock ownership plan, losing at least $10 million in the process. Armstrong's stock slipped from a takeover-fervor high of 51 to 19. Recent price: 28⅛.

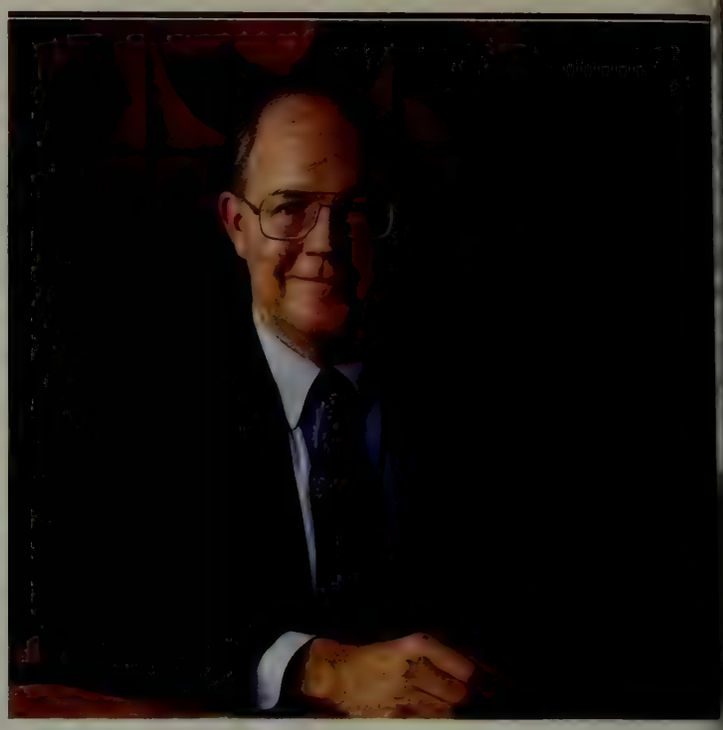
Lancaster, Pa.-based Armstrong makes floor coverings, building products and furniture for the building and home improvement markets, and it has suffered accordingly. Sales for 1991 will come in about 4% below 1990's $2.5 billion. Earnings may fall to $30 million, from a 1989 peak of $188 million. "We're not able to grow at a desirable rate now," Adams admits. "On the other hand, if I look internally, I couldn't be happier."

What's he referring to? Since 1986 Adams has spent $1.4 billion on a capital improvement program to upgrade technology, streamline customer service and finance acquisitions. Some results are impressive: Production cycle time at the Mobile, Ala. ceiling board factory has been cut from two weeks to 90 minutes. Credits for damaged goods, which once took 100 days to settle, now take 2.

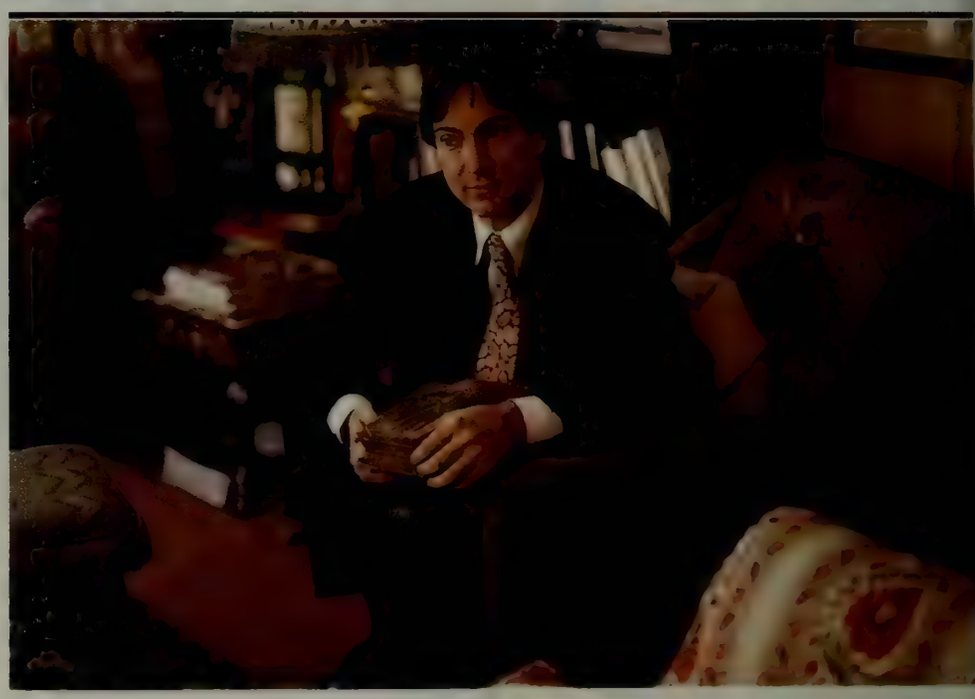
Concentrating core operations, Adams bought a few small companies like the Schmidheiny family's ceiling operations in Switzerland and sold more than $200 million worth of languishing operations like carpeting and pigment analysis systems. In 1988 he paid National Gypsum $330 million for ceramic tile maker American Olean. Armstrong now ranks number one or two in businesses that account for 90% of its sales.

Until the economy picks up, we won't know whether Adams' efforts have paid off. But considering the alternative—falling into the hands of predators with no ability to run a business—Armstrong has got to be seen as better off. —LISA COLEMAN

RIGHT:
William Adams, chairman, Armstrong World Industries
Has he run the company as well as he fought the Belzbergs?



BELOW:
Rock 'n' roll lawyer John Branca
He lost Michael Jackson, but he's not hurting.



Still rolling

ENTERTAINMENT agent John Branca lost a prize client, Michael Jackson, when he got caught in a battle with wily near-billionaire David Geffen in 1990. But don't count Branca out. Last year Branca, a partner with the Los Angeles-based law firm Ziffren, Brittenham & Branca, cut two of the biggest talent signings in the record industry. In November he wrapped up a deal for the Rolling Stones with Britain's Virgin Records for more than $40 million—for which the Stones are obliged to deliver no more than three new albums.

Three months earlier he negotiated an estimated $30-million-plus contract for another gang of aging rockers, Aerosmith, with Sony Music Entertainment's Columbia Records label. Those two deals are probably worth $2 million or $3 million to Branca's firm.

"It turned out to be a great year," admits the 41-year-old former keyboard player. His best yet? "No," Branca states curtly. "When Michael Jackson went on a world tour in 1988, I had a pretty good year."

—PETER NEWCOMB

Communism's biggest landlord?

KWONG-CHING (PETER) WOO is worth about $900 million, controls $500 million more and will probably keep 90% of it in Hong Kong when Beijing takes over in 1997. Says Woo, "Opportunities in South China and Hong Kong are probably the best-kept secret in the business world."

Woo, 46, is one of four sons-in-law of Hong Kong billionaire Y.K. Pao, who died last September. Pao had divided his empire into four sections and put one son-in-law in charge of each. Woo, who spent three years at Chase Manhattan after earning an M.B.A. at Columbia University, got the most visible piece: the public, but family-controlled, real estate companies, World International and Wharf Holdings.

Hong Kong investor Kwong-Ching Woo
The son-in-law also rises.

Wharf has announced major building plans in downtown Hong Kong and the New Territories, the northern, less developed part of Hong Kong that abuts China's Guangdong Province (FORBES, *July 22, 1991*). Over a period of four years Woo plans to tear down 2 million square feet of commercial space and replace it with more than 7 million square feet of new developments. Added to his other properties, that will make Woo the biggest landlord in Hong Kong. Included in the plans are New Tech Centre, a 41-story combination of warehouse, factory and office space, and Gateway Towers, a twin-tower office/retail complex.

Other signs of Woo's faith in Beijing: a 27% share in Hong Kong's Cross Harbour Tunnel and a bid to build a microwave-based cable television system for Hong Kong.

Outside Hong Kong, Wharf already owns Omni International Hotels and recently paid Singapore's Ong Beng Seng family $34 million for Houston's 381-room Inn on the Park Hotel. Woo is also talking to Regent International founder Robert Burns about buying his 65% stake in that hotel chain. With hotel prices off 30%, that would be a contrarian's contrarian hedge. —TODDI GUTNER

George Nicholson, yachting impresario
"Maxwell was always naked on the boat."

Used yacht lot

GEORGE NICHOLSON makes a very good living building and selling superyachts for the very rich, but he's fallen on his face trying to run a marina.

Nicholson, whose family has been building boats in England since 1782, sold over $100 million of boats last year. He built Robert Maxwell's 180-foot *Lady Ghislaine* ("There's nothing to the fact that he was naked when he died," Nicholson insists. "He was always naked on the boat"). His latest delivery: Mexican billionaire Emilio Azcarraga's 240-foot *Eco*.

But the rich aren't spending money so publicly today. "It's not the money," he explains. "It's their social consciousness." With new orders down, Nicholson, 54, is trying to jazz up his other business, especially downtown Manhattan's North Cove Harbor, a 26-slip home for 75-to-150-foot yachts.

In partnership with Azcarraga, Nicholson built North Cove for $15 million. The plan was to sell the berths as condominiums for up to $2 million apiece, but title-transfer problems and bad timing quashed that. "We missed the boat," he admits. Since 1989 North Cove has been pulling in only a few hundred thousand a year from transient berthing.

The new plan: Fill up the marina by tapping the resale market. Nicholson figures he can cut sellers' carrying costs—annual upkeep runs about 10% of a boat's original price—by providing free berthing and some maintenance. He'll take his fee when the boat is sold. One source of business: banks, which are often too spooked by maintenance responsibilities to foreclose on bad big-boat mortgages.

With at least ten boats in the marina year-round, Nicholson thinks buyers will travel around the world for the ease of one-stop comparison shopping. "It's not easy buying a yacht," he says. "It's quite hard work."

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Watch NOVA on PBS, Tuesdays at 8 p.m.

As businesses slim down, they sometimes spin off subsidiaries rather than sell them. Such spinoffs present opportunities for investors.

Healthy babies

By Eric S. Hardy

BACK IN 1984 Time Warner—Time Inc., as it was then—distributed to its shareholders stock in Temple-Inland, a timber company in Texas. Since the day after the spinoff, Time Warner stock has climbed only 112%, but Temple-Inland shares have almost quadrupled.

The Temple-Inland phenomenon is not very unusual. A diversified company aims to sharpen its focus or dump an unattractive sideline. Rather than sell the business, which might take a while or cost it corporate capital gain taxes, the parent just gives the business away to its own shareholders.

These spinoffs often present buying opportunities for astute investors. Enough of those shareholders may dump the spun-off company to depress the latter's share price for a brief period. Then the spinoffs bounce back in price.

Penn State finance faculty members James Miles, Patrick Cusatis and Randall Woolridge, in a research paper presented in Chicago last year, found that spinoffs outperform the market. "We studied 146 companies formed by spinoffs since the 1960s and concluded that, during their first three years, they outperform the S&P by 35%," says Miles.

Here's another success story. Kaydon, a Florida-based bearing manufacturer, was distributed in April 1984 to holders of a smallish electronics firm called Bairnco. Since then Bairnco stock has lost more than one-third its value. But Kaydon turned into a big winner. Its shares are up more than 700% since the 1984 spinoff transaction.

According to *Spinoff Report,* a monthly newsletter published in New York, 73 companies went public between 1984 and 1989 via spinoffs.

In the future, spinoffs may become less common. One of their attractions is the benefits they bring to the parent company. But these may end soo because of changes in tax la (FORBES, *Sept. 2, 1991*).

The table below shows ten ar nounced but as yet unconsummate spinoffs. Several of these subsidiari are clearly being booted out of th corporate nest because they dra down the parent's image or profit Thus Dial (formerly Greyhound) unloading its commercial lendin outfit, and General Dynamics is de taching, with all the attendant prod uct liability problems, Cessna Air craft, a manufacturer of business air craft. When they start tradin separately, these spinoffs could pre sent buying opportunities. But b careful: Don't overpay. Remembe that other investors are not ignoran of the Kaydon phenomenon.

Look at each situation separately You can't buy blindly and expect t get the excess returns that Professo Miles tabulated. ■

Kicking the little ones out of the nest

Parent/business	Recent price	Sales ($mil)[1]	Spinoff/business	Sales ($mil)[1]	Operating income ($mil)[2]	Proposed spinoff date
Burlington Resources/oil & gas	34¼	1,900	**El Paso Natural Gas**/natural gas	645	148	early 1992
Dial/consumer products	48½	3,519	**GFC Financial**/commercial lending	278	44	early 1992
First Mississippi/chemicals	11⅞	537	**FirstMiss Gold**/gold mining	74	3	undecided
General Dynamics/aerospace & defense	56½	10,173	**Cessna Aircraft**/business aircraft	716	106	undecided
Greyhound Lines Canada/bus transportation	28⅝	265	**Motor Coach Industries**/bus manufacturing	120	NA	mid-1992
Hathaway/precision instruments	3	51	**Global Software**/computer software	24	–2	undisclosed
Home Shopping Network/retailing	5⅛	1,079	**Precision Software**/voice response systems	NA	NA	early 1992
National Intergroup/wholesale drugs	14	2,879	**Ben Franklin Stores**/discount stores	339	NA	undecided
Team/industrial services	7⅝	103	**Universal Services**/infrastructure maintenance	63	10	undecided
Union Carbide/chemicals	23⅛	7,600	industrial gases[3]	2,400	NA	early 1992

[1]Latest fiscal year. [2]Earnings before interest and taxes. [3]Name of spinoff is yet to be announced. NA: Not available.
Source: Spinoff Report.

These companies plan to spin off subsidiaries to their shareholders. In the past, spinoff stocks as a group have outperformed their former parents. But now that The Street is wise to this historical phenomenon, it's likely that spinoffs won't be available at such bargain prices.

THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

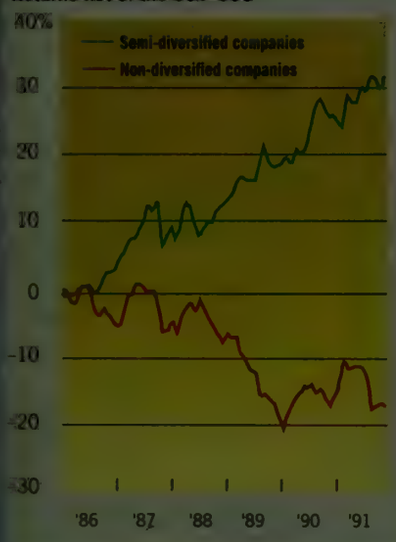
This bull market is a result of low interest rates that may be headed even lower, but [it] will need the substance of higher earnings for the rally to be sustained," says market strategist Alan Ackerman of Reich & Co. Ackerman says investors are flocking to the stock market not because equities are good values but because there is such a big penalty (in the form of low yields) to staying in cash. With a flat economy, he is turning cautious. He thinks it's too early, for example, to buy cyclical stocks like chemicals and metals. About the only companies that Ackerman favors are in the food processing and health care industries.

The so-called January effect—when small-company stocks outperform blue chips—worked magnificently in the early days of 1992. Less than halfway through January the Nasdaq is holding an 11% gain for the year, while the broad-based Barra All-US index is up 4%.

Special focus

A little bit of diversification is a good thing. Over the past five years stocks of modestly diversified companies have beaten the market. In contrast, widely diversified conglomerates merely matched the S&P 500 over that period. And despite their recent rally, single-industry stocks underperformed the S&P.

Returns net of the S&P 500



The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	4.4%	37.1%	0.0%
Sharpe/Barra Growth index[1]	3.4	45.5	–0.1
Sharpe/Barra Value index[2]	3.1	28.0	–0.5
Dow Jones industrials	4.1	28.4	0.0
S&P 500	3.2	32.8	–0.4
NYSE	3.4	33.5	–0.1
Nasdaq	10.8	71.3	0.0
Amex	8.0	36.3	0.0
EAFE[3]	2.9	12.8	–17.7
CRB index[4,5]	–0.3	–5.4	–23.4
Gold[5]	0.6	–8.5	–28.9
Yen[5]	–0.5	–6.3	–23.3
Oil[5]	–3.5	–35.6	–56.6

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Liposome	26 1/2	102%	$–0.39	Harken Energy	3 7/8	–39%	NA
Alkermes	28 3/8	86	–1.10	Atlas Services	15 1/8	–17	$1.23
Nova Pharmaceutical	9 3/4	81	–0.25	TI International	18 3/4	–16	1.42
Immunomedics	15 7/8	72	–0.10	Rowan Cos	4 3/4	–16	0.02
Best Buy	23 7/8	66	1.56	Transco Energy	16 5/8	–15	1.38

The best and worst performing industry factors[6,8]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Hotels, restaurants	12.3%	11.0%	Oil service	–12.5%	–12.9%
Motor vehicles	11.0	9.4	Aluminum	–0.9	–4.6
Precious metals	10.7	1.7	Thrifts	–0.4	–3.1
Media	10.5	4.7	Gas utilities	0.3	–3.0
Tobacco	10.3	4.0	Leisure, luxury	0.0	–4.8

Note: Data for period ending 1/9/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

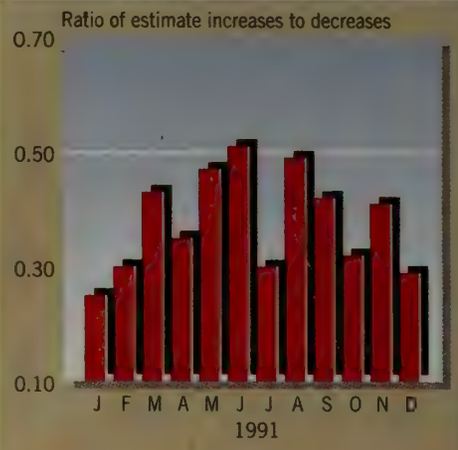
WHAT THE ANALYSTS THINK

BY STEVEN RAMOS

S&P 500 P/E* vs. Aaa bonds†

*S&P 500 P/E is the recent price of the S&P 500 divided by estimated earnings over the next 12 months. †Actual and projected price-to-coupon ratio for Moody's Aaa corporate bond index.

S&P 500 companies



Forecasting the S&P 500

Year	Estimated P/E	% change current vs. 3 months ago	Expected year-to-year EPS growth
1990[1]	17.5	NA	–7%
1991	19.8	–5%	–11
1992	15.2	–5	30

1991 estimates for industry groups

Rising estimates	Falling estimates
auto parts (replacement)	automobiles
toys	airlines
containers/paper	aluminum
housewares	steel
railroads	misc metals

With the market rallying to record highs, it is not surprising that security analysts—many of whom are biased toward optimism because it's good for their brokerage house employers' business—are putting out optimistic earnings forecasts. Current projections call for an eye-popping 30% increase in profits for the companies underlying the S&P 500 index in 1992 (to $27.40).

Take that optimism with a grain of salt, however. One year ago the same group of Wall Streeters thought that S&P 500 earnings would rise 14% in 1991. It now appears that 1991 earnings will come in 11% *lower* than 1990 earnings.

Here's another reason to be cautious. Even if the 30% earnings gain arrives on schedule, today's stock prices are levitating at 15 times those anticipated earnings. In the past month the price-to-expected-earnings ratio has gone from an 18% premium to a 28% premium over the corresponding ratio for bonds—that is, the price/coupon ratio. The last time there was such a wide discrepancy between anticipated P/Es on stocks and price/coupons on bonds was just before the crash of 1987.

Who's hot

Greatest increase in estimates over the past three months

Company/industry	1991 EPS[2]	1992 estimate recent	1992 estimate 3-month change	P/E	3-month price change	Reason
Michigan Natl/banking	$3.02	$4.02	25%	10	8%	Improved lending margins
Goodyear Tire & Rubber/rubber	1.21	3.21	24	17	20	Lower raw material costs, efficiencies from restructuring
Adv Micro Devices/semiconductors	0.70	1.30	23	14	54	Higher revenues from its 386-clone microprocessor
Great Lakes Chemical/chemicals	4.83	6.24	18	18	17	Benefits from acquisition of Octel
Metropolitan Finl/savings & loan	4.54	3.60	16	6	–3	Improved lending margins, strong loan production

Who's not

Greatest decrease in estimates over the past three months

Company/industry	1991 EPS[2]	1992 estimate recent	1992 estimate 3-month change	P/E	3-month price change	Reason
Ford Motor/auto	$–4.28	$0.63	–69%	45	–4%	Eroding market share, higher marketing costs
Trinova/machinery	–0.54	0.98	–48	20	–10	Weak European industrial and domestic auto markets
Bethlehem Steel/steel	–2.52	0.86	–47	16	–11	Falling steel prices, decline in sales
Bowater/forest products	1.22	1.02	–39	21	–4	Soft prices for pulp and newsprint
Inco Ltd/metals	1.00	1.44	–37	21	–7	Lower nickel prices, increased production costs

Note: Companies listed have a market capitalization of $100 million or more. [1]Actual. [2]Estimate. Earnings projections are Wall Street consensus estimates data from 3,000 security analysts compiled by the Institutional Brokers Estimate System, a service of IBES, Inc. Aaa bond yield forecasts supplied by Blue Chip Economic Advisors. NA: Not available.

Your muni fund may be sneaking some partly taxable bonds into the portfolio. Should you frown or smile?

Taxable munis

By Laura Saunders

YOUR SUPPOSEDLY tax-exempt municipal bond fund may have bonds that are sometimes taxable. Is this a bad thing? Not for most taxpayers, says Thomas Conlin, manager of the Strong Municipal Bond Fund. Conlin recently got 30% of the income from his $122 million fund in these somewhat taxable munis. "We think they have the best of both worlds—premium yield and credit quality," he says. Income from these bonds is federally taxable, but only for those who pay the "alternative minimum tax."

These so-called AMT bonds present both danger and opportunity. The danger is that you will unexpectedly become subject to the alternative tax, at which point dividends from a fund like Conlin's will be partly taxable. The opportunity is that bonds tainted by the alternative tax tend to have slightly higher than normal yields.

Taxable municipals? What gives? In 1986 Congress chipped away at the long-standing exemption for state and local government bonds by making some of them taxable to some people. The alternative tax, supposedly aimed at fat cats, is levied at a flat 24% rate on a broader base of income than is used to figure regular taxes. You pay either the regular tax or the alternative tax, whichever is higher.

Included in the alternative tax's broad base is interest from "private-purpose" municipal bonds issued after 1986. Example: Conlin owns Illinois bonds due in 2024, used to finance low-income housing. Given that the bond is rated A+, its 7.6% yield is not bad—unless you are subject to the alternative tax, in which case the aftertax yield drops to 5.8%.

Are you subject to the alternative tax? Ask your accountant. As a rule, it's pretty hard to get hit if your deductions (excluding interest and medical) are less than 25% of income. Above that, be on guard. Deductions that count toward the tax now include those for property and state income taxes. Thus, merely living in a taxing state like New York can be trouble.

There are a lot of private-purpose bonds to pick from. The Public Securities Association estimates that they accounted for 9% of the $168 billion of new muni issues last year. And, as Conlin argues, they aren't necessarily bad credits. Some are backed by bank guarantees; others are twinned with totally tax-free issues of the same maturity from the same issuer. That's because the law now caps the amount of tax-free financing some projects can use; the excess must be raised through alternative-taxable issues.

Fund sponsors fall into two camps. USAA has no private-purpose bonds in any muni portfolios. "We believe many of our shareholders are subject to AMT and would be irritated at the complexity it would cause if we had them," says John Saunders, who oversees USAA's fixed-income funds.

On the other side of the fence is Franklin Resources. Franklin surveyed its customers and found that only about 1% were subject to the alternative tax. "If we didn't buy them, we'd be penalizing 99% of our investors," says Gregory Harrington, a vice president at Franklin.

How much of a yield premium do you get on these tainted bonds? Small, but noticeable. Franklin's Harrington likes to see 30 extra basis points (that is, 0.3 percentage points). But he finds that spread harder to get, now that fund managers are more comfortable with these bonds.

The table below lists ten funds with varying amounts of private-purpose paper. If you know you won't pay the alternative tax, consider funds like these. But don't lose sight of factors like credit quality and expense ratio. High expenses could easily wipe out the extra basis points you would pick up from private-purpose bonds. ■

Somewhat taxable

Fund	% of portfolio in AMT bonds	5-year total return[1]	Yield[2]	Average grade	Expenses per $100 investment
Prudential Municipal Bond–High Yield	29%	6.2%	6.92%	BBB	$0.60
Strong Muni Bond Fund	22	NA	7.04	AA	0.30[3]
SteinRoe High Yield Municipal	19	[illegible]	6.53	BBB/AAA	0.71[3]
IDS High Yield Tax-Exempt Fund	16	7.2	7.13	A/AA	0.55
Colonial Tax-Exempt Fund	12	6.9	5.89	AA–	1.03
Franklin High Yield Tax-Free Income Fund	15	8.7	7.57	BBB	0.52
MFS Managed High Yield Municipal Bond Trust	14	6.4	7.63	BB	1.05
Franklin Federal Tax-Free Income	12	7.3	6.54	A+	0.50
Putnam Tax-Free High Income	13	6.7	7.48	BBB	0.95
Vanguard Muni Bond–High Yield	3	8.0	6.45	A	0.26[3]

[1] Annualized, as of 9/30/91. [2] Current yield, as defined by the SEC. [3] Fund has no load (front or back). NA: Not applicable.

Some muni fund managers pick up a little extra yield by holding bonds subject to the alternative minimum tax. Don't buy such a fund if you might be subject to this tax. And, as always, keep an eye on expenses. ■

With their funds back in public favor, junk bond fund managers have a problem: Where will they get the merchandise they need?

Empty shelves

WITH THEIR impeccably bad timing, investors, having dumped junk bond funds at low prices in 1990, are now clambering back in. They were attracted not only by high yields but by the news that the junk funds as a group showed total returns of an astounding 36% last year. Through November, customers put $2 billion more into junk bond funds than they took out in withdrawals and monthly dividend checks. That was after they pulled $5 billion net from the same funds in 1990.

Not that junk bond funds do not still offer good yields; they do. But all the new money pouring in poses a huge problem for the fund managers: how to invest it. The managers are competing not only with one another but with bond issuers themselves. The latter are taking advantage of willing equity markets and lower interest rates to replace their high-coupon debt with equity or new, lower-coupon debt. The result is a high-yield bond shortage, predominantly in the top tier, and sinking yields.

RJR Nabisco, Owens-Illinois, Ann-Taylor, Duracell, Amphenol and Filene's Basement are just some of the better-quality junk bond issuers that retired some of their bonds in 1991. Mark Vaselkiv, comanager of the T. Rowe Price High Yield Fund, says $87 million worth of the bonds in his $1 billion fund were called or tendered for in the fourth quarter of 1991. He figures that another $180 million are callable by June 1992. He will have trouble reinvesting the proceeds at attractive rates.

Most high-yield bonds were issued between 1986 and 1989 and were noncallable in the first three to five years. Now issuers can refinance them. "The majority of the market is callable in the next two years," says Joseph Bencivenga, director of junk bond research at Salomon Brothers.

During the past year Michael McNamara, manager of Kemper's high-yield portfolios, has been trying to improve his call protection. For example, he traded Lear Siegler Seating 14¼s for another Lear Siegler issue with just a 14% coupon but with two more years of call protection. "I suspect other fund managers are doing the same," says McNamara.

As the managers crowd into the high-yield market, they have to compete with issuers anxious to buy their own debt, sometimes at a discount and retire it or replace it with lower-yielding debt. Take the case of textile manufacturer Burlington Industries, the object of a 1987 leveraged buyout. Last fall the company used a $70 million bank loan and cash to buy back $250 million face value of bonds on the open market for $133 million. That was after picking up $40 million in face value in a tender offer at 18 cents on the dollar.

Increased demand for junk and the attractiveness of refinancing mean that bonds issued by the higher-grade junk issuers have become scarce. So in order to keep fully invested and maintain an attractive yield, some funds have moved into lower-quality stuff. Here they have found no shortage of bonds because the junk market on the whole hasn't shrunk significantly. Salomon Brothers estimates that the market contracted slightly from $214 billion at the end of 1990 to $203 billion at the end of 1991. The net loss came from repurchases and upgrades of junk debt to investment-grade status. Meanwhile, there have been significant downgrades, holding the supply steady. Case in point: the $30 billion of debt issued by Chrysler Corp. and its finance subsidiary. However, the downgrades usually go to the middle or bottom tier of the junk bond market. "They don't help the situation in the top tier, where demand exceeds supply," says Salomon's Bencivenga.

As investors crowd into this limited segment of the market, prices will continue to rise and yields drop. Take the BB-rated Owens-Illinois 11s. The bonds are callable in 1999 at 103 and are now trading at 106 for a yield to worst of just 10%. (Yield to worst measures the compound annual return that the holder would have, buying at today's price and surrendering in a call that occurred at the most inopportune time.) At 10% those bonds yield just 2.5 percentage points more than top-rated corporates.

Thus the Federated High Yield Trust, which was yielding 17.5% a year ago, now has an 11.7% yield. And the average bond price in its portfolio is now 102, meaning that many of the

Join the crowd

Fund	3-year return[1]	Yield[2]	Manager	Expense ratio[3]
Federated High Yield Trust	9.6%	12.1%	Mark Durbiano	0.78
Fidelity Capital & Income Fund	6.5	10.0	David Breazzano Dan Harmetz	0.81[4]
T Rowe Price High Yield Fund	4.8	11.3	Richard Swingle Mark Vaselkiv	1.03
Vanguard Fixed Income-High Yield	7.5	11.0	Earl McEvoy	0.40
American High Income Trust	11.8	10.3	Multiple managers	1.00
Kemper Diversified Income Fund	12.6	12.6	Michael McNamara	1.23
Liberty High Income Bond Fund	11.6	11.8	Mark Durbiano	1.03
Merrill Lynch—High Income-A	11.6	12.4	Vincent Lathbury	0.66

[1] Annualized. [2] Last 12 months' income dividends, divided by net asset value. [3] Annual expenses as percent of net assets, latest fiscal year. [4] Distributor may impose redemption fee, which proceeds revert to the fund.

Junk yields are still fairly high, but nothing like the bonanzas they were a year ago. The table lists the four largest no-loads and the four best performing out of a group of load funds. Stick to the no-loads unless you need hand-holding from a broker.

onds are vulnerable to call.

With bond prices so high and new money coming in every day, it is no surprise that some high-yield fund managers have begun trading down in quality. Alan Petersen, manager of the Cigna High Yield Fund, has bought the junk issues of cyclical companies such as Uniroyal Chemical and Quantum Chemical. Vaselkiv of T. Rowe Price is considering adding dollar-denominated Mexican debt, currently yielding 11%, to the T. Rowe Price High Yield Fund.

The shortage of high-quality merchandise explains why one high-yield manager has looked so eagerly at bank debt. Commercial banks are loaded with so-called HLT loans—the debt of highly leveraged transactions. Regulators have been leaning on banks to cut back on HLT loans in their portfolios. By selling off some of these loans the banks can make the regulators happy even if it means parting with some excellent yields.

"The real opportunity was bank debt," says David Breazzano, comanager of Fidelity's Capital & Income Fund, whose charter now permits it to buy defaulted debt as well as solvent junk. "We bought senior, secured bank paper at discounts to subordinated, unsecured junk bonds. We are buying at 50 cents and 60 cents on the dollar." The discount is partially offset by the lower interest rate on bank debt, but Breazzano expects 20% to 30% annual returns on the bank loans. Insurance companies are also selling privately placed lower-rated debt that they hold. "That is a potential opportunity," says Breazzano.

Since FORBES advised investors to buy junk bond funds in its Apr. 30, 1990 issue, the funds have had a 27% total return on average. What now? Don't expect a repeat of 1991. "My portfolio is at $102 [value per $100 of bond par value]," says Mark Durbiano, manager of Federated High Yield Trust. "Could it go to $105? Sure. To $140? Not really."

For yield plus a chance at modest appreciation, the high-yield funds are still attractive. But bear this in mind: A junk bond acts like a cross between a bond and a stock. If the stock market turns sharply down, it could take junk bonds with it, even if interest rates don't go up. —S.O. ■

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Seeking to refinance $76 million in turnpike bonds, the State of New Hampshire put together a fixed/variabl rate structure combining Dutch auction and residual interest bonds. This enabled them to sell the debt at variabl rates without interest rate risk. To increase the bonds' value, the state needed a guarantor skilled in evaluating its credit-worthiness as wel as the complexities of such relatively new structures—at a competitive price One insurer met these criteria: GE Capit subsidiary Financial Guaranty Insurance Company.

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A third of all municipal bond issues are guaranteed by a third party. But who guarantees the guarantor?

Faulty safety nets

BY BEN WEBERMAN

Ben Weberman is a columnist for FORBES magazine.

NEARLY $5 billion of municipal bond issues went into default last year, more than double the $1.9 billion of the previous year. The carnage could be even greater this year.

How do you protect yourself from that as an investor? One way is to seek out issues that have so-called credit enhancement. This means that the issuing government pays a fee to an insurance company, bank or specialized finance company to stand behind the promise to make timely payments of interest and principal.

About a third of all municipal issues have this type of protection. Moreover, that percentage is growing, says David Elliott, president of the Municipal Bond Investors Assurance Corp. This year up to 35% of new muni bond issues are expected to be insured, says Elliott. That, he says, is the result of increasing concern about the credit quality of issuers that realize they must insure their bonds or have retail customers—who now make up the majority of muni buyers—be less willing to invest.

The problem is that not all guarantees are the same, and some of the "credit enhancers" are running into problems of their own. So it's important to take a close look to see what kind of protection you're really getting as an investor.

First some basics. The cost of credit enhancement is nominal. Example: Early last year Arkansas Power & Light financed a waste disposal facility through the Pope County, Ark. Solid Waste Disposal authority. The portion insured by Ambac Indemnity Corp. was rated AAA and yielded 7.55% on bonds due Jan. 1, 2021. The noninsured portion was rated Baa-2 by Moody's. These yielded 8% for bonds also due in the same year.

Insurance provided by MBIA and other specialized, or so-called monoline, insurers like Ambac and Financial Guaranty Insurance Co. is cheap and probably the most secure. Richard Lehmann, who runs a defaulted-bonds newsletter and tracks information about such issues in Miami, says that the monoline insurers' credit enhancement is so valuable that the yield relationship to top-quality general obligations should be reversed. The insured bond return should be 10 basis points lower than the general obligation bonds, rather than higher, as is now the case.

Requiring more analysis are bonds backed by letters of credit from commercial banks or multiline casualty companies. Check the credit status of the bank or insurance company before you buy a bond it insures.

Orange County, Calif. Apartment Development authority, for example, sold a $14.5 million issue in 1985 for the Harbour Point Project, a multifamily rental housing project. The long-term bonds, due 2006, carried a letter of credit from Citicorp and were rated triple-A at the time, with a yield of 8.3%.

Problems began last year when the bank started reeling from a troubled real estate loan portfolio. Moody's downgraded the bank's credit—including the letters of credit issued for the Orange County project. Result: The insured portion of the bonds is now rated a much lower A2.

Other banks to be downgraded by the rating agencies recently and which have issued letters of credit include Sumitomo Bank, with 230 issue credits at stake, and Manufacturers Hanover—now merged into Chemical Banking Corp.—which took letter of credit fees for 155 issues. Citicorp is behind 292 municipal bond issues.

Another risk to the investor is that letters of credit generally do not run for more than seven years. So on longer-maturity issues, there's a chance that if credit quality has deteriorated, the letter of credit may not be renewed.

A long list of housing and development bonds, including Connecticut State Housing Mortgage Revenue and Cobb County, Ga. Development Authority bonds, were downgraded when Mutual Benefit Life of New Jersey failed last summer. The insurance company had guaranteed bond issues for projects, many of which the company itself had helped finance. While the company is currently making some interest payments, it is not guaranteeing principal payments, and investors are in limbo.

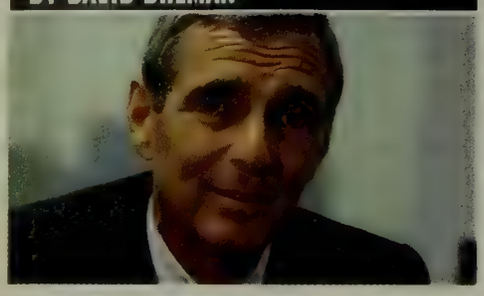
How can you tell when an insurance company is running into difficulty? Larry Brossman, vice president of insurance rating at Duff & Phelps, credit raters, says one way is to see whether the company has widely varying ratings. This, he says, should send a signal to the investor that there are other factors of concern regarding the issuer, and not to rely on ratings alone. Brossman, for example, would be wary of guarantees by Washington-based United Pacific, which is rated A-plus by Duff, BBB by S&P and only Ba-1 by Moody's.

The bottom line for investors should be caution. Yes, it's another thing to worry about. But just because a bond is "guaranteed" doesn't mean the safety net will hold. ■

The concept side of the market is at most a year or two away from disaster. But there are good buys elsewhere.

Seven to buy in '92

BY DAVID DREMAN



David Dreman is chairman of Dreman Value Management, L.P., Investment Counsel, New York, and author of *The New Contrarian Investment Strategy.*

BELIEVE IT or not, the S&P 500 has more than quintupled (dividends reinvested) since 1982. Last year alone that index gained 30% and the Russell 2000 small-cap index added 44%.

Is it too late to buy stocks? Not necessarily. Many stocks were left in the dust. Some of these issues present major opportunities today. Not all, but some.

Investors paid lavish prices for growth and concept stocks, notably the biotechs. With only the glimmer of a product in the future, these doubled, tripled or even quadrupled. These stocks represent the concept side of the market—stocks priced on the value of their concept rather than on assets and earnings. My guess is that this concept side of the market is at most a year or two away from disaster. I recently participated in an investment conference where a fellow who specializes in small-cap concept stocks had this to say about his kind of stocks: "Without earnings there are no disappointments." The implication being that this kind of stock can go up forever because it isn't subject to the real world of sales and earnings.

Haven't we heard that kind of talk before? Like in 1983.

For now the fellow is right. While investors pay astronomical prices for concept, the market is extremely harsh on companies that disappoint. But disappointment is also opportunity. Assuming the setback is only temporary, it gives investors a chance to buy the stock cheap. That's why one year's losers are often the next year's winners. The regional banks, Freddie Mac and Fannie Mae (recommended a number of times in this column in the past 18 months) were chopped apart in 1990 but were among the best performers in 1991.

The trick here, of course, is to make sure the news that crashed the stock is only temporary. Here is a list of stocks, all underperformers in 1991, that I think should have a good bounce this year.

American Express (22) was battered last year because of lower earnings in its Travel Related Services Group (credit cards and traveler's checks), normally about 60% of income and a double-digit grower. To compound the problem of a weak economy, the company took major writeoffs in its more recently introduced Optima card because of too liberal assumptions on credit standards. With the worst of the recession and the credit card losses behind it, 15% to 20% growth from IDS Financial Services and improving performance from Shearson Lehman, the company should be solidly in the black this year. AXP trades at 1.4 times book, a P/E of 11 on estimated 1992 results, and yields 4.6%.

Humana is one of the nation's largest and best-managed hospital chains. The stock is down from last year's high of 35 to a recent 27 because of recession-related lower earnings increases. Over time, the company should have a 10% earnings-per-share growth rate. HUM trades at a P/E of 10 times estimated earnings (fiscal year ending Aug. 31), yielding 3.3%.

Wells Fargo, the nation's tenth-largest bank, took a round trip last year, doubling from its low before dropping to a recent 61. The reason larger than expected real estate write offs and the fear that California property is headed for a free-fall. To preserve cash flow, Wells' directors also temporarily halved the cash dividend. With a strong market share in California, which after the shakeout is likely to continue to have above-average growth, WFC should begin to show positive earnings comparisons again in the next few quarters. The stock trades at book value, a price/earnings ratio of 10 on estimated 1992 results and yields 3.3%.

Loews Corp. (113) is a diversified company with a major position in tobacco, Lorillard, Inc.; insurance, CNA Financial Corp.; television, a 25% interest in CBS; as well as other holdings. A positive turn in a number of operations should result in earnings increasing approximately 10% in 1992. The stock trades at a P/E of 11, yielding 1%.

Woolworth (30) is one of the major international retail chains with large operations in Germany, Canada, the U.K. and other countries, as well as in the U.S. Fiscal 1991 (ended Jan. 25, 1992) will be a down year because of poor domestic results, a major restructuring and weakness abroad. Earnings should improve later this year and reach record highs in 1993. The stock trades at a P/E of 10 on estimated 1992 results and yields 3.5%.

Hawthorne Financial (14), a small S&L, is also taking its lumps in the California market. With the bulk of its reserve increases behind it, HTHI should show better comparisons in 1992. The stock has a book of $35, trades at a P/E of 5 and yields 7%.

Royce Value Trust (10) did have a fairly good year in 1991, but it is still a reasonably priced way of getting into the value part of the small-cap market. This closed-end value fund trades at an 8.2% discount to the market and yields 1.6%. ■

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ND OIL, INC. N

uin Named Chief Financial Officer of Ashland Oil, Inc.
To Be Elected Senior Vice President

HLAND, KY., Nov. 27, 1991—J. Marvin Quin II has been H chief financial officer of Ashland Oil, Inc. (NYSE: ASH), ding to John R. Hall, Ashland chairman and chief ive officer. The appointment is effective February 1, and is being made in anticipation of Quin being elected vice president at the company's board meeting on ry 30, 1992.

arvin Quin has nearly 20 years of financial experience hland which includes serving as treasurer for the any since 1983," said Hall. "He is extremely qualified to as the company's top financial officer and will be g the company's core management group."

this position, Quin will be responsible for all of the ration's accounting, tax, treasury, internal auditing, ing and analysis, and investor relations functions. He port to Hall. Quin will succeed Paul W. Chellgren who is elected president and chief operating officer at the ry 1992 board meeting.

in joined Ashland in 1972 as a financial analyst. He ferred to Ashland Chemical Company, a subsidiary of nd Oil, as manager of project analysis in 1974 and held al management positions in planning and development e subsidiary before being named administrative vice dent in 1979. Quin was elected treasurer of Ashand Oil in and was given additional responsibilities as adminis- e vice president of finance for the corporation in 1987. native of Vicksburg, Miss., Quin received a bachelor's in ce from the University of Mississippi and a master's in ess administration from the University of Virginia. He his wife, Terry, have two children and reside in the nd area.

ontact: William P. Hartl, Ashland Oil, Inc., 535 Madison New York, NY 10022. Phone (212) 421-1250.)

LAND OIL, INC. N

West Virginia Appeals Court Reverses
$10.32 Million Jury Award Against Ashland Oil

SHLAND, KY., December 20, 1991—The West Virginia eme Court of Appeals today unanimously reversed a May 0 jury verdict which awarded four plaintiffs in a civil uit $10.32 million in compensatory and punitive dam- from Ashland Oil, Inc. The lawsuit, which was heard in court in Charleston, W.Va., sought nuisance damages alleged emissions from Ashland's Catlettsburg, Ky., oleum refinery.

a 41-page opinion, written by Justice Margaret man, the state supreme court cited numerous reversible rs which were made by the trial court in a nuisance case ving four West Virginia plaintiffs. The trial was consid- a "test" case in pending litigation against Ashland ving several actions and several hundred plaintiffs. The t ordered a new trial consistent with the guidelines tained in the court's opinion.

n commenting on the court's decision, a company esman said, "We are extremely pleased with the West inia Supreme Court's decision in favor of the company. appeals court opinion is an important step in Ashland's ense of this and other related suits. The company has said long that the charges brought in this and other suits are out merit and we will continue to vigorously contest m."

he appeals court decision reversed $1.3 million in pensatory damages awarded by the state court jury, g, "Given the lack of evidence regarding damages, the court erred in not granting appellant's (Ashland's) on for a directed verdict." The court went further in ssing the jury's $9 million punitive damage award, writing, "The jury in this case did not have before it any substantial evidence of Ashland's conduct which demonstrated a 'conscious wrongdoing' necessary to award punitive damages. . . . Accordingly, the punitive damage awards should have been set aside by the trial court."

The appeals court decision also clarified several important questions involving standing and causation in the case. In discussing standing, the court wrote that given the fact that three out of four of the plaintiffs in the case had "no ownership or possessory interest in the property for which they sought nuisance damages, the trial court committed reversible error in ruling that they had standing to pursue claims." Even though the court did not fully address causation, it wrote ". . .we do note that the causation evidence presented appears very weak."

The court also wrote that the trial court erred in excluding Lee Thomas, former U.S. EPA administrator, from testifying in Ashland's defense. "This testimony, according to appellant (Ashland), was directly relevant to any assessment of punitive damages because it would demonstrate that Ashland acted in compliance with environmental law and had no reason to believe that its conduct caused serious harm."

In review, an Ashland spokesman said, "Ashland intends to continue vigorously opposing this and related suits."

(Contact: William P. Hartl, Ashland Oil, Inc., 535 Madison Ave., New York, NY 10022. Phone (212) 421-1250.)

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Nearly everybody has become sour on gold recently. That could be a contrarian reason to turn bullish. And there are other reasons, too, for owning some.

Bugged by gold

BY MARK HULBERT

Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

GOLDBUGS WITH long memories are exulting over a recent *Business Week* article declaring that gold has lost forever the economic properties that once made it a good portfolio hedge and that "goldbugs have rocks in their heads."

Business Week is legendary in the investment-letter community for bad timing advice. In 1979, for instance, on the edge of the most bullish decade stocks have enjoyed this century, the magazine ran a cover story on "The Death of Equities." And it wasn't until nearly four years later that *Business Week* decided to publish a bullish cover, after the average stock had nearly doubled. But, true to form, its May 9, 1983 cover "The Rebirth of Equities" came just as the stock market was about to embark on a year-long correction.

And now it was burying gold. And it was not the only one. At year's end, no fewer than seven out of every ten gold timers were bearish. The average recommended exposure to the gold market among all gold timers tracked by the *Hulbert Financial Digest*—both the bulls and the bears—is just 20%, down from 57% as recently as the end of this past November.

It would be rare indeed for such an overwhelming majority of market advisers to be right. Does anyone dare stand up and say gold is a buy because the consensus is so bearish? A few do. A strong contrarian reaction to the *Business Week* article comes from *Fund Profit Alert*, a new advisory service out of Cincinnati, Ohio: "To state that gold has lost the economic properties it's had throughout civilization . . . is a sign to buy."

Robert Prechter of the *Elliott Wave Theorist*, who has been extremely bearish on gold for a number of years, finds himself uncomfortable on the bearish bandwagon. Prechter has recently noted the bullish implications of the increased bearish sentiment on gold, as evident not only in the financial press but also in the put/call ratio. He can't yet be classified as bullish, but he says that gold must "begin accelerating to the downside" to keep the bear market intact. In other words, either gold must drop a lot further—and soon—or the long bear market will be called into question. Even a slight rise to about $360 per ounce would convince him to turn bullish, at least on a short-term basis.

There also are good fundamental reasons to resist becoming excessively bearish. This became quite clear when I segregated gold timers into those who use fundamental analysis and those who are technicians. The large majority of the technicians, including those who have beaten the market over the last five years, were bearish. Hardly surprising, given that most of them are trend followers. Yet the fundamentalists on balance are bullish—especially those who have beaten the market over the longer term. Currently, in fact, two out of three such fundamentalist market beaters are on buy signals for gold.

These fundamentally oriented bulls take comfort in current Federal Reserve policy. Not only is the Fed's policy inflationary in its own right, they argue, but it also will cause the U.S. dollar to fall against the major foreign currencies. "What could get gold shares rising might not be inflationary fears," writes James Dines of the *Dines Letter*, "but a good old-fashioned surprise monetary crisis as Greenspan's ever-lower interest rates trigger unacceptable declines by the U.S. dollar."

While I don't suggest that gold is about to turn around and run way up, the existence of these bullish arguments from the contrarian and fundamentalist camps is reason not to eliminate gold from a diversified portfolio. Gold is a good hedge against stocks; its return tends to fluctuate opposite to the return of stocks. The stock market won't go up forever, needless to say, and when it goes into the inevitable bear phase, gold is likely to be a good thing to own.

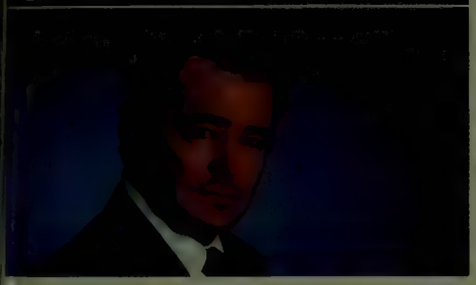
Consider, for example, the extent to which gold outperformed stocks during the inflationary 1970s. According to a Salomon Brothers study, between 1968 and 1983 gold returned an average of 9% per year more than the inflation rate. Over this same period, in contrast, stocks barely held their own against inflation.

Currently two mutual funds are recommended for purchase by four of the gold letters I follow: Fidelity's Select Precious Metals fund (which has a 3% front-end load and a 0.75% redemption fee if held for less than 30 days) and Vanguard's Specialized Gold & Precious Metals fund (which carries no load but has a 1% redemption fee). Among individual gold mining companies, two domestic firms stand out. *Homestake* (recent price: 15) is the favorite, recommended by no fewer than seven of the letters I monitor. Next most popular, recommended by four letters, is *Pegasus Gold* (12).

Instead of nattering at the Japanese, President Bush should be looking for ways to get capital flowing to small businesses again.

Searching for the light switch

BY JOHN RUTLEDGE



John Rutledge is an economist and chairman of Rutledge & Co., a merchant bank in Claremont, Calif.

LAST MONTH President Bush took a planeload of 21 chief executives of large, and mostly unsuccessful, U.S. companies on a highly publicized magical mystery tour of the Far East to see if he could pressure the Japanese into jump-starting the American economy by buying more of our cars and other products. A total waste of time.

It is good that the Administration is groping for the light switch to turn the economy on, but it is groping in the wrong places. The Japanese are not the problem. The Japanese are already spending, as many happy American companies can attest. Since 1986 Japanese imports have nearly doubled, growing at 10.9% per year, more than twice as fast as Japan's exports (4.3%), and about double the growth in its economy (5.5%).

Mirroring these trends, real U.S. exports have increased at a 10.9% annual rate over this same five-year period, while real U.S. imports have grown by only 5.2% per year. The U.S. trade deficit with Japan has declined from $56 billion in 1987 to $41 billion in 1990. The U.S. current account deficit, including trade in financial and other services, where the U.S. has a strong surplus, is estimated at only $10.2 billion for all of 1991, about one-fifth of 1% of our $5.7 trillion gross national product.

So, selling more cars in Japan may be good for U.S. automakers, but it is just not going to solve our growth problems. Of the 21 chief executive officers who accompanied the President to Tokyo, all but 5 head large public companies. This is important to note because big companies are hardly the engines of growth of the U.S. economy. While the U.S. economy created 20 million jobs during the 1980s, employment at large companies shrank by 2 million. In short, President Bush's traveling companions were not the people who can get the economy growing.

Big companies, in general, are downsizing today, not because they face unfair foreign competition, but because they are unable to produce products that satisfy their customers and returns on capital high enough to satisfy their shareholders. Needless to say, there are companies that manage to be big and successful at the same time, companies like General Electric, Wal-Mart and Coca-Cola. But they are the exceptions.

Big companies, by and large, represent the past for the American economy; small companies represent its future. Stock market returns for 1991, with the 20.3% increase in the Dow dwarfed by the 56.8% return on the Nasdaq Composite of over-the-counter stocks, indicate that investors believe any growth in the U.S. will be concentrated in smaller companies. President Bush would have done better to load his airplane with heads of no-name businesses if his objective was to create jobs for American workers.

The core of our economic problem is small business, and that's where repair efforts need to focus. Small-capitalization public companies did well last year because falling interest rates significantly lowered their cost of capital. But companies that are too small to tap the public markets for funds have been left out of the party altogether. These companies have no alternative but to get the money they need to meet payroll from their local banks. And low rates or not, banks are still not making loans to businesses, so the businesses that are the heart of the U.S. economy are being starved for capital.

Over the past year large commercial bank holdings of government securities increased by $41.5 billion, up 23%, while personal loans declined by $15.3 billion, down 7.6%, and business loans dropped by $33.5 billion, a 10.4% decrease. During the past three months, the credit crunch has persisted. Afraid of regulators and attracted by a steep yield curve, banks are still socking money away in government securities instead of lending to businesses. Until someone finds a way to get working capital into the hands of our small businesses, the American economy is going to continue to stagnate.

Instead of nattering at the Japanese, what the President should be doing is developing a plan to systematically lower the cost of capital for American companies—not just big companies, all companies. That means taking steps to put our banking system back in order.

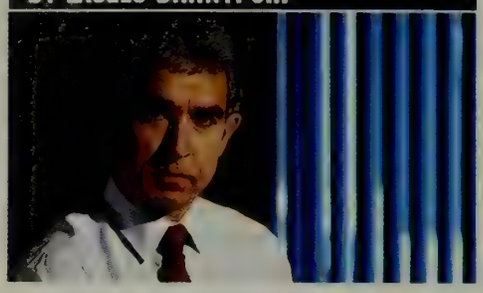
Reducing the capital gain tax rate to 15%, then indexing capital gains to avoid the inflation tax, would be a powerful boost to both real estate and stock markets, helping to shore up the weak capital position of the banking system. Such sensible moves would help to lower long-term interest rates and improve investment spending. And specific measures to encourage banks to lend money to small business would help to turn on the great American job machine again.

The country needs not large-scale photo ops for the media but concrete action to get capital flowing to small and medium-size businesses. ■

With individual investor money still pouring into the stock market, it is far too early to sell.

Who are those guys?

BY LASZLO BIRINYI JR.



Laszlo Birinyi Jr. is president of Birinyi Associates, New York, a financial consulting firm.

REMEMBER WHEN, IN *Butch Cassidy and the Sundance Kid,* Sundance, glancing back nervously at his pursuers, asked: "Who are those guys?"

You can ask the same question about a stock market that has staged a spectacular advance: Who are the guys doing the buying? After years of institution-driven markets, the individual investor seems to have taken over. Retail investors buying for themselves were apparent in the first several days of the surge, spurred by the Fed's 1% discount rate cut on the morning of Dec. 20. Our firm's approach is to analyze every trade electronically. Our analysis showed that smaller, retail-oriented trades were in the vanguard of the move off the Dec. 10 low, not big blocks. And even on Dec. 23, when there was an 88-point surge, institutional buying was less than 50% of the total.

Interestingly, during those days, volume in utilities and other high-yielding issues showed no significant increase, which suggests that individuals looking for higher yields probably bought mutual funds rather than utility stocks.

The influence of the individual investor on the market is even stronger than the figures show. Mutual funds have been the largest institutional factor. They had no choice but to buy because the public poured so much money into them. The largest fund complex, Boston's Fidelity, reported an increase in equity assets of $1 billion on Dec. 30 alone. Assuming that its managers matched the market that day, it would indicate that about $900 million in net new money was deposited with Magellan Fund manager Morris Smith and his colleagues on just that day.

Investment advisers who had prospered in the first part of the year were another force, especially in the last week of 1991. At the end of the third quarter, some advisers, who had smartly outperformed the 17.4% gain in the S&P, in effect closed their books on the year by hedging their portfolios. While that tactic was profitable through most of the fourth quarter, these portfolios suddenly found that their gains—relative to the market—were first dissipating, and then disappearing.

Performance money suddenly became nonperforming, and these investors gave the market another surge of buy interest, as they rushed to benefit from the rally.

Other institutional investors, such as pension plans, insurance companies and overseas investors, were not in evidence as the rally progressed. Market folklore says that pension funds receive their money early in the calendar year. But there is little concrete evidence to endorse that notion. Nevertheless, the $1 trillion in pension portfolios has yet to exert a significant influence.

By analyzing every transaction since mid-December, we can determine that the most intense buying has been—among the larger groups—in airlines, semiconductors, computers, foods, health care and drugs. Energy stocks, utilities, banks and retailers may have participated in price gains but buying there has been lukewarm and insipid.

Considering the individual names in the Dow Jones industrials, here's how they look to us now:

IBM (91), one of our choices for recovery, is doing so perhaps more quickly than many had anticipated. But there is genuine buy interest, and it is building.

Disney (128) has been the quiet winner of the rally. There has been little or no mention of this stock in the media, but it has accounted for over 10% of the Dow's gain since the bottom (only Merck has had a greater impact), and there are both large and small buyers present.

Union Carbide (23) traded as low as 16 in December and is apparently a genuine turnaround. The stock mostly underperformed the S&P 500 before that time, and mostly outperformed it thereafter.

McDonald's (42) showed retail buying long before the institutions participated. In an issue where retail investors are also likely to be major consumers and users of the product, the presence of small-investor buying is a major plus.

Although there have been no losers among the 30 stocks, several advanced with little or no support. And one stock—*Texaco* (57)—actually has been under distribution by investors despite its 1⅞-point rise.

Chevron (66) shares have fared a little better, up over 3 points since the bottom, but buying is very limited and not the type that would carry the stock further.

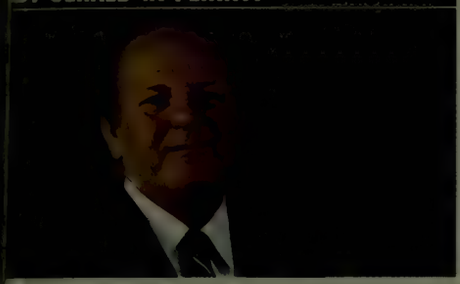
Exxon (58), the third oil stock in the DJI, is not under pressure. It could be that investors who want some energy representation favor this name over the other two.

Philip Morris (80) and *Coca-Cola* (79) are two names that have fully participated, but there, too, it has been more a case of "some buyers, no sellers" and not the buying stampede that prices might indicate. In a surge like this one, it is almost always too early to sell, but with these two, it is probably also too late to buy. ■

lere's a golden opportunity to get in on a rowth industry at bargain prices.

Garbage to gold

BY GERALD W. PERRITT



erald W. Perritt is portfolio anager of the Chicago-based erritt Capital Growth Fund and editor *Investment Horizons.*

MEDIEVAL ALCHEMISTS would be envious of a number of waste collection and pollution control companies that have been turning garbage into gold during the last two decades. Take Waste Management. Started less than 25 years ago, Waste Management is expected to show earnings of about $700 million on revenues of around $7.5 billion for 1991. Investors who anted up $8,200 to purchase 100 shares of the firm's common stock in January 1981 would have pocketed more than $4,800 in cash dividends, and own 2,400 shares currently worth $103,000. If Waste Management were a mutual fund, it would rank as the number one performer during the last ten years.

Intelligent investors buy the future, not past successes. How does the future of the garbage business look? In my opinion, better than ever.

We humans have treated the environment pretty roughly since the Industrial Revolution; earth, air and water quality have suffered from an expanding population and accompanying economic growth. However, during the last two decades there has been a growing public awareness of and concern for the environment—one way or another, every American is an environmentalist now and is willing to pay for cleaning it up.

Growth opportunities for environmental cleanup firms abound overseas, too. Europe is about ten years behind the U.S. in pollution control and environmental remediation. Eastern Europe and the new Commonwealth of Independent States (the old U.S.S.R.) are decades behind.

Looking ahead toward the next century, I see everything coming up roses for the environmental cleanup industry. Since 1987, industry sales have advanced at a 24% annual clip, and strict environmental regulation and enforcement should continue to drive industry growth at a 20% annual rate well into the 21st century. Stronger regulations are on the way in the U.S. Europe's economic consolidation will lead to higher environmental standards modeled after those in the U.S. Something will have to be done about the industrial sewer the socialists created in Eastern Europe.

So why wasn't 1991 a good year for environmental companies and their shareholders? The lengthening economic recession in the U.S. has reduced both the amount of waste being generated by industry and the funding of environmental cleanup programs. As a result, industry revenues have slowed considerably and profit margins have shrunk. And Wall Street's preoccupation with the present has predictably led to sharp drops in stock prices following declining earnings. Browning-Ferris and Safety-Kleen shares, for example, have dropped 53% and 29%, respectively, from their highs.

All of which creates a timely buying opportunity. Last year's corrections reduced the hefty price/earnings multiples that have historically been commanded by firms in this industry. My favorites among the garbage industry's giants are Waste Management and Safety-Kleen.

Waste Management (43) is the world's largest waste collection and pollution control firm. Earnings for 1991 should rise to about $1.60 from $1.49 reported a year earlier. With earnings expected to top $2 next year, the company's shares are priced at a below-average 21 times likely 1992 earnings per share.

Safety-Kleen (27) is the world's largest provider of parts and tool cleaning services. It also disposes of and recycles solvents, lubricating oil and other liquid waste. Although earnings are expected to decline to 90 cents for 1991 (from $1.05 in 1990), sales continue to expand at a near-20% annual clip. Look for a 30% to 40% earnings rebound during the next 12 months. If these earnings come through, its stock is priced at 20 times expected earnings.

Looking for smaller-cap stocks? Among the two dozen or so smaller firms that are elbowing for market share, I favor Ecology & Environment, Geraghty & Miller and Met-Pro, each of which should benefit from an economic turnaround and a return to favor of waste collection and pollution control stocks.

Ecology & Environment (16) is a fast-growing, 20-year-old environmental engineering company. It also provides emergency oil and chemical spill response and investigates uncontrolled hazardous waste sites. While about 40% of its revenues are derived from government contracts, this percentage has been reduced from 70% in 1989. Despite a 26% five-year annual revenue growth rate, its shares are priced at less than 12 times trailing earnings.

Geraghty & Miller (13), founded in 1957, is a pioneer in the design and engineering of remedial cleanups for groundwater contamination. Per-share earnings should top 80 cents this year and 90 cents next year, as revenues continue to grow at a 20% annual rate. I believe the stock is bargain-priced at 17 times trailing 12-month earnings and 14 times 1992 estimates.

Met-Pro (14) is a 25-year-old manufacturer of air and water pollution control devices and filtration systems. Earnings per share in fiscal 1992, ended Jan. 31, are estimated at 80 cents, down from 96 cents a year earlier. Understandably, its stock price is off 30% from its 1991 high. ■

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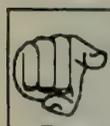

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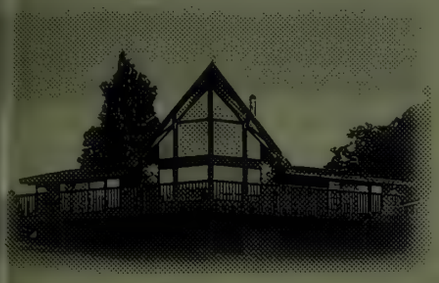

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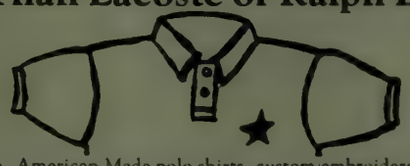

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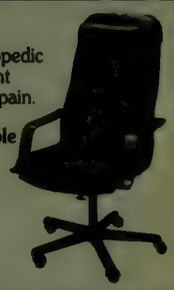

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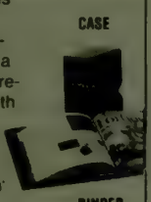

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How high is the sky?

MONEY IS FLOODING into mutual funds, pushing total fund assets to $1.3 trillion, 13 times what they were only 11 years ago. Since fund operators pull down revenues based on the assets they manage, while costs often do not rise proportionately, the upside leverage should be terrific.

Big trends are running in favor of the fund management companies. Today savers deposit their wealth at places like Dreyfus Corp., T. Rowe Price & Associates and Franklin Resources. These companies lend it out to home buyers (via Ginnie Mae funds), corporations (via money funds that buy commercial paper) and the government (via U.S. Treasury funds). Banks will shrink.

Another shift of intermediation is occurring in the pension business. The old, General Motors-style "defined benefit" pension put the assets in the hands of a pension manager or insurance company and the risk in the employer's treasury. Now, "defined contribution" plans such as corporate thrift accounts put the risk with the worker and the assets often in the hands of a financial service provider at the end of an 800 number. Again, more traffic for mutual funds.

Most management company stocks already reflect most of these good tidings. A $10,000 investment at the beginning of 1991 in mutual fund management company T. Rowe Price, for instance, would have been worth $18,800 by year's end. You'd have scored comparable gains on investments in either of the other large publicly traded fund operators, Franklin and Dreyfus. Buy in today, though, and you are paying 22 to 31 times trailing earnings for any of these fund sponsors. Analyst Michael Blumstein of Morgan Stanley points out that fund operators already are trading at 17 to 18 times his estimated 1992 earnings projections.

Still hungry for a piece of the action? Blumstein has a suggestion: Kemper Corp., a multiline insurance company that owns a chain of regional brokerages and sponsors $40 billion in open-ended funds, including Kemper Growth, ranked eighth among growth funds by Lipper Analytical Services. Investors worry about Kemper's insurance operations, Blumstein says, and overlook its asset management business. Result: The stock sells for only 10 times his 1992 earnings estimate of $4.55 a share. —RICHARD L. STERN

Barron Hilton holds on

HOW THE MIGHTY can fall. In 1989 the stock of Hilton Hotels Corp. hit 116 on takeover rumors. No deal materialized. Too bad. By the fall of 1990 the stock had dropped below 30. Recent NYSE price: 42.

Analyst Steven Eisenberg of Oppenheimer & Co., who put a buy on $1.1 billion (1991 sales) Hilton in the mid-30s, still thinks the stock's fair game at current levels. Here's why:

Although Hilton's lodging business—45% of operating profits—has been hurt by the recession, it's still a strong franchise in Hawaii and other important markets. True, lodging profits were down sharply in 1991. But Eisenberg notes the business showed a 16% earnings gain in the fourth quarter.

Eddie Hironaka/Image Bank

Hilton on Waikiki Beach, Honolulu
Strong franchise, even in a downturn.

In the Nevada gaming business (the other 55% of Hilton's income), the Las Vegas Hilton, which caters to high rollers, has run into the recession and increased competition. But results at Las Vegas' Flamingo Hilton, which draws the middle-income crowd, have been strong. Ditto those at the Flamingo Laughlin. Meanwhile, Hilton, with hotels in Chicago and New Orleans, could become a player in Mississippi riverboat gambling, both in Illinois and Louisiana.

Financially, Hilton is solid. Between 1988 and 1990 its capital program exceeded $800 million. Eisenberg estimates capital spending will shrink to $250 million over the 1991-93 period, freeing up cash that could be used to pay off debt or buy back stock. Note that Hilton's $790 million of long-term debt equals just 45% of capital, well below the industry average. Plus there's $350 million—over $7 a share—of cash.

Hilton earned $1.76 a share in 1991, down 25%. Eisenberg forecasts a recovery to $2.28 in 1992. He thinks the stock will go to the mid-50s over the next 12 to 18 months. There are around 48 million shares outstanding. Insiders, led by Chairman Barron Hilton, control some 34%.

Back on the market

HERE'S A recent public equity issue backed by solid earnings: $1.1 billion (sales) Interstate Bakeries Corp. The company is the third-largest bakery operation in the U.S., behind Ralston Purina's Continental Baking division and Anheuser-Busch's Campbell Taggart division. Based in Kansas City, Mo., Interstate makes bread and related products sold regionally under such brand names as Butternut, Merita and Sweetheart, as well as Dolly Madison snack cakes sold nationally.

After going private in an LBO in 1987, Interstate went public again last July, raising $250 million through the sale of 15.6 million new shares at $16 per share. There are 21 million shares. Recent o-t-c price: 18.

Debt service penalized profits during Interstate's LBO years, but the firm still managed to more than double operating margins, to 6%. Meanwhile, cash flow rose 250% over the previous four years. Result: Between 1988 and the end of its May 31, 1991 fiscal year, long-term debt was reduced from $432 million to $350 million. Thanks to proceeds from the IPO, debt was $225 million—just 51% of capital—by November. Analysts project Interstate will generate over $30 million a year of excess cash flow that can be used to cut debt further.

They also project 1% to 3% annual hit volume growth, lower interest osts and gradually expanding operat-g margins. The analysts estimate terstate will earn as much as $1.40 a are in the current fiscal year, up om $1.19 (pro forma) in 1991, and 1.55 or more in fiscal 1993, which arts next June. Thus the stock sells r 12 times projected earnings for the ar that begins in just five months.

Metropolitan Life, CS First Boston nd affiliates, and George K. Baum & o., a Kansas City brokerage—all articipants in the 1987 LBO—together own some 20%.

Super Food for thought

UPER FOOD SERVICES, the $1.8 bil-on (sales) food wholesaler, distrib-tes to more than 900 supermarkets n Ohio, Michigan, Indiana, Ken-ucky and Florida. The Dayton-based ompany has lately been negotiating o sell its Orlando, Fla. division to upermarket chain Albertson's, which s Super Food's main customer in Florida. Question: With Albertson's ccounting for more than 30% of evenues and roughly 25% of operat-ng profits, won't the sale take a devas-ating bite out of Super Food's bot-om line?

Not necessarily, says analyst Charles Cerankosky of Kemper Secu-rities Group. He estimates the trans-ction would net Super Food $70 million—which could be used to re-pay debt and to buy back stock. At a recent NYSE price of 14⅜, Cerankosky notes, the shares trade at a modest 18% premium to book value—com-petitors like Super Valu Stores, Wet-terau and Fleming trade for 2 to 3 times book value. He also speculates that Super Food could use the pro-ceeds to buy another smallish whole-saler like Kentucky Food Stores, which Super Food acquired last Au-gust, or to diversify by purchasing a food retailer.

Cerankosky predicts Super Food will earn at least $1.30 a share for the fiscal year ending Aug. 31, 1992. (This excludes any adjustments relat-ed to the potential Orlando sale.) So the stock sells for just 11 times esti-mated earnings. There are 10.9 mil-lion shares outstanding; insiders own under 10%.

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he more things change . . ."

0 years ago in FORBES

ROM THE ISSUE OF FEB. 4, 1922)

This is a time for courage. Business is ssing through that rather dark hour hich proverbially precedes the dawn. hen the war boom was nearing its est few men or concerns had the urage to retrench rigorously. What called for now is courage, not to trench, but to prepare actively and gressively for the period of expan- on [expected] this spring. . . ."

The latest report on the cost of ving by the National Industrial Con- rence shows that prices now are 0.3% below the peak reached in July, 920. Food has decreased 31%; cloth- g, 39%; and sundries, 4%. . . ."

0 years ago

ROM THE ISSUE OF FEB. 1, 1932)

Investigate the concerns that have one ahead during 1930-31, and in most every instance you will find at demand was stimulated by novel- . Demand for the old, the ordinary, as been distinctly subnormal. But me and time again it has been dem- nstrated that the people can find the oney to buy that which particularly ppeals to them as being new and ttractive."

50 years ago

FROM THE ISSUE OF FEB. 1, 1942)

World War II's famed Rosie the Riveter.

"Many companies are still anti-feminist as far as industrial work goes. However, signs multiply that women's place in industry soon will be greatly improved. Like it or not, industry must face the facts. Women are one answer to the acute labor shortage. In England, they are active in all fields, while almost 50% of British aircraft workers are women."

"Figures just released show that American Airlines carried 1,202,816 revenue passengers during 1941, thus becoming the first air-transport company in the world to carry a million or more persons a year."

25 years ago

(FROM THE ISSUE OF FEB. 1, 1967)

Backyard iron furnaces of Mao's Great Leap Forward were a great flop.

" **'If they come out** of Washington clean,' one mutual fund man said, 'they should be enormously popular.' He was speaking of the latest new merchandise thought up by his industry, the dual funds. These are closed-end investment companies with two classes of shareholders. One class gets all the income from the entire portfolio, the other all the capital gains."

Newcomer Learjet's hot Model 24 executive jet.

"To many outside lookers-in, the executive airplane may seem a costly frill, a jet-age version of Commodore Vanderbilt's private railroad train. But this just isn't so; executive planes today are as much a part of corporate communications, of top-level control of sprawling operations as are computers."

"Although sexy paperbacks carry a high profit margin and are good traffic builders for drugstores, the 500-store, $500-million-a-year Walgreen Co. refuses to carry them. Also on Walgreen's proscribed list: *Playboy* magazine. Says Charles R. Walgreen, chairman and son of the company's founder: 'We just don't think it's good business to have these items displayed in a store frequented by so many families.' "

10 years ago

(FROM THE ISSUE OF FEB. 18, 1982)

"Whoosh! Malcolm Forbes' dart landed on the board precisely on the listing for a company called Texas Oil & Gas. That was in 1967. Since then TO&G has gone up 4,099%. Which is why the famous FORBES Dart Board Fund continues to beat the market and outperform the majority of market sages."

"The levels of bad-debt reserves at U.S. banks were moving upward by the end of 1981, but the motive doesn't seem to have been those 'the-check-is-in-the-mail' communiqués out of Warsaw. American bankers were more concerned about the big troubles of International Harvester, the beleaguered Chicago-based agricultural machinery firm. Harvester actually had bigger immediate debts with its 200 bank creditors than Poland did with the 460 institutions it was beholden to—$4.2 billion, compared with $2.4 billion."

Give naught, get same.
Give much, get same.

Working at what you enjoy is far more important than what you're working at.

A good heart can no more be concealed than a bad one.

A hug's a happy thing while a shrug's so often destructive.

There are no exceptions to the rule that everybody likes to be an exception to the rule.

If you're looking for perfection, look in the mirror. If you find it there, expect it elsewhere.

–MALCOLM FORBES

A Text ...

The words of the Lord are pure words: as silver tried in a furnace of earth, purified seven times. Thou shalt keep them, O Lord, thou shalt preserve them from this generation for ever.
–PSALMS 12:6-7

Sent in by Mr. C.M. Bakko, Excelsior, Minn. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

The trouble with our times is that the future is not what it used to be.
–PAUL VALÉRY

Everyone's future is, in reality, an urn full of unknown treasures from which all may draw unguessed prizes.
–LORD DUNSANY

To pierce the curtain of the future, to give shape and visage to mysteries still in the womb of time, is the gift of the imagination. It requires poetic sensibilities with which judges are rarely endowed and which their education does not normally develop.
–FELIX FRANKFURTER

I like the dreams of the future better than the history of the past.
–THOMAS JEFFERSON

The future is a great land; a man cannot go around it in a day; he cannot measure it with a bound; he cannot bind its harvests into a single sheaf. It is wider than vision, and has no end.
–DONALD G. MITCHELL

The future is like heaven—everyone exalts it but no one wants to go there now.
–JAMES BALDWIN

Future: That period of time in which our affairs prosper, our friends are true and our happiness is assured.
–AMBROSE BIERCE

You can never plan the future by the past.
–EDMUND BURKE

We steal if we touch tomorrow. It is God's.
–HENRY WARD BEECHER

Only mothers can think of the future, because they give birth to it in their children.
–MAXIM GORKY

If a man carefully examine his thoughts he will be surprised to find how much he lives in the future. His well-being is always ahead. Such a creature is probably immortal.
–RALPH WALDO EMERSON

The man least dependent upon the morrow goes to meet the morrow most cheerfully.
–EPICURUS

More than 9,000 "Thoughts," indexed by author and subject, are available in a three-volume boxed set at $49.50 ($19.50 per volume if purchased separately). Also available, a one-volume edition of over 3,000 "Thoughts." Price: $19.50. Send check and order to: Forbes Books, P.O. Box 11234, Des Moines, IA 50340. Add sales tax on orders in New York State and other states where applicable.

He who lives in the future lives in a featureless blank; he lives in impersonality; he lives in Nirvana. The past is democratic, because it is a people. The future is despotic, because it is a caprice. Every man is alone in his prediction, just as each man is alone in a dream.
–G.K. CHESTERTON

They gave each other a smile with a future in it.
–RING LARDNER

An author is a fool who, not content with having bored those who have lived with him, insists on boring future generations.
–MONTESQUIEU

My interest is in the future because I am going to spend the rest of my life there.
–CHARLES F. KETTERING

S
February 17

ess: Malibu's boot camp by the sea

The cost of tort: $300 billion a year and growing

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February 17, 1992 Four Dollars

Forbes

British Petroleum
Chairman
Robert Horton

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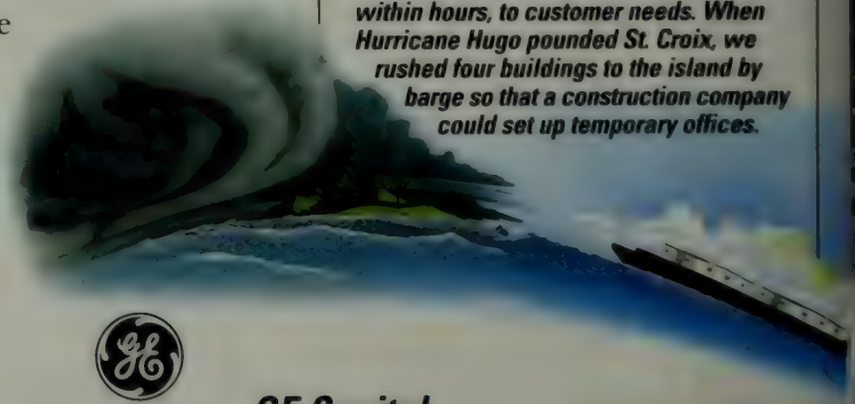

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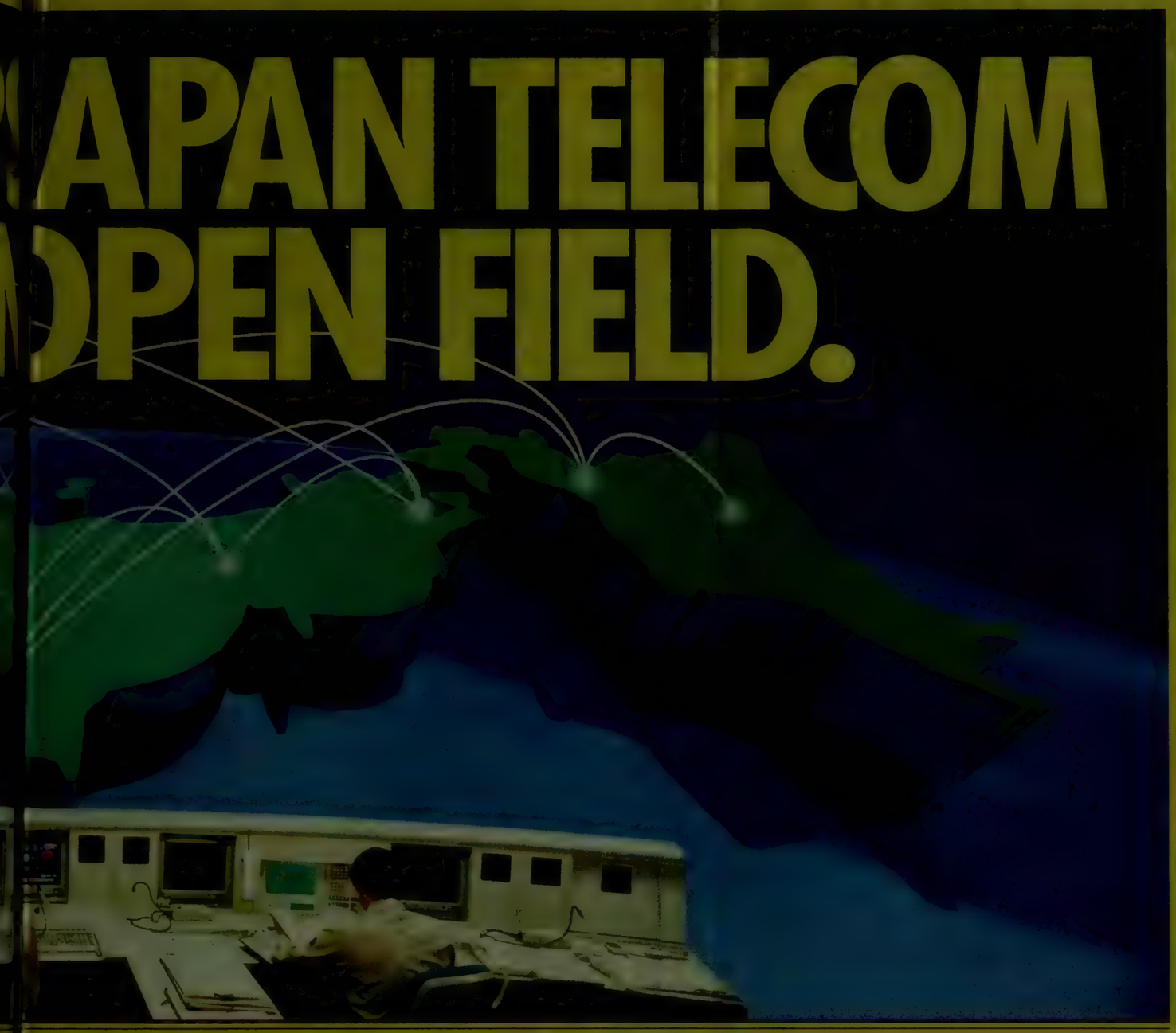

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FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048.

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Subscriptions: U.S.A. one year (27 issues), $52. Canada, one year, $90 Canadian funds (includes GST). All others $119, U.S. funds. Air Mail rates available upon request. **Forbes Subscriber Service:** To order, change address or other customer service, call 1-800-888-9896 or write Forbes, P.O. Box 10048, Des Moines, IA 50340-0048.

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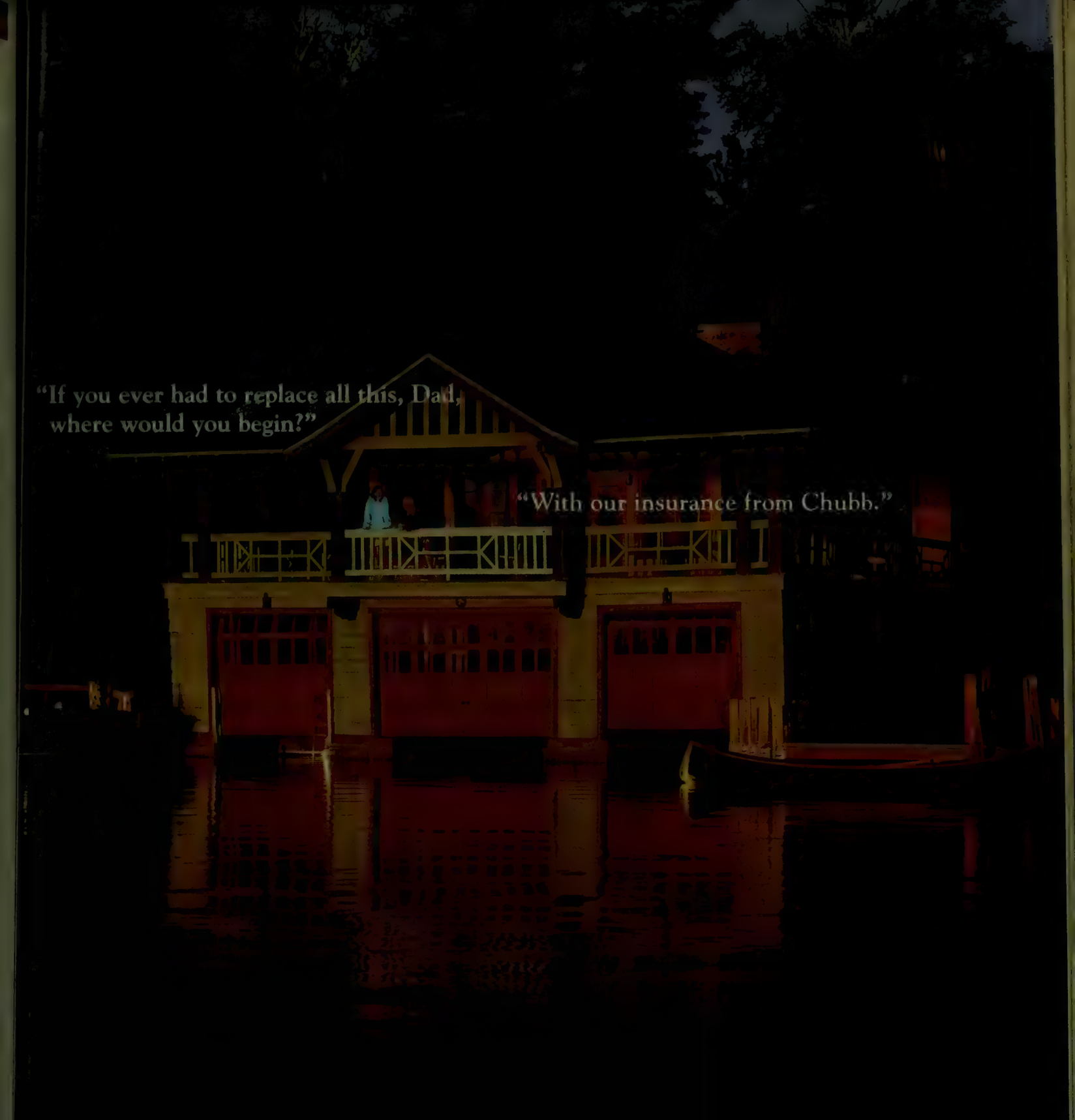

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Calculated risk

DO YOU FIND stocks too risky, at an average 27 times trailing 12-month earnings? Short-term Treasury bills too pale, with 4% yields? FORBES' Bill Baldwin explains why a diversified portfolio of bond funds is a plausible alternative to stocks and T bills—and shows you how to create one. What does the mathematics of statistical averages have to do with it? Read Bill's story, "Fixed-income strategy for fund buyers," starting on page 152. Our semiannual update of ratings on 656 funds follows, supervised by Baldwin and Steve Kichen.

The tort tax and protectionism

IN THE PROCESS of fact checking one of the articles in this issue, Jean Chatzky asked me about a line mentioning the Scientologists. From a factual and legal point of view, the line posed her no problem. "But you should know," she said, "the Scientologists are suing people for saying the same thing." Should we say what we wanted to say, thereby risking a frivolous but expensive lawsuit? Or let another party tell us what to say?

Reuters/Bettmann

The big three chairmen in Tokyo
Can protection alone save them?

Multiply this small example many, many times over and you have a part of what Leslie Spencer calls "the tort tax." As most business people know, the country's tort system is running amok. The direct cost of tort litigation—now some $184 billion a year and growing in double digits—makes U.S. goods and services ever more expensive. Worse are torts' indirect costs, among them the chilling effect on innovation created by the fear of being sued. Spencer's story starts on page 40.

Speaking of the competitiveness of American industry, Jerry Flint fears U.S. automakers are now so far behind the Japanese that only government protection can save them. Few FORBES editors think much of protection—it didn't seem to help British industry much—but Flint made a good case that the big three are too important to let fall, and we let him make his plea. "The case for protection" (page 44) sounds themes that will be heard often this election year.

Oil at $25?

OUR HOUSTON BUREAU'S Toni Mack regularly writes about oil—an industry where top executives tend to be cautious and conservative. Robert Horton is neither. Chief executive of British Petroleum, Horton told Mack he expects oil to hit $25 a barrel by mid-decade. Highly leveraged to the price of crude, BP's earnings would double if that price were reached. But Horton isn't idly waiting. He believes that to make BP quicker and smarter than its competitors, he must hack away at its bureaucracy and create an upward flow of ideas from the company's 118,050 workers. How is he approaching this challenge? Read "Eager lions and reluctant lions" on page 98.

Lawrence Minard

Managing Editor

Nightmare Scenario #2

THE RUNAWAY CASH SUCKER.

"Why didn't someone tell me this @$!?& network would cost so much?"

A lot of executives go pale when they see how much their computer networks are really costing them.

"What's with all this new payroll?" they ask. "I thought this thing was going to save us money."

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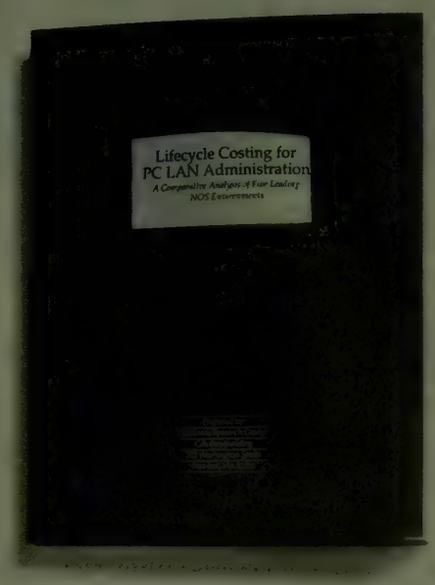

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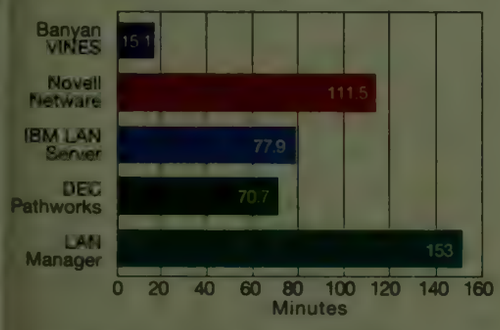

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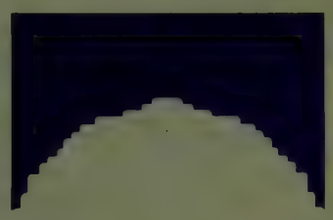

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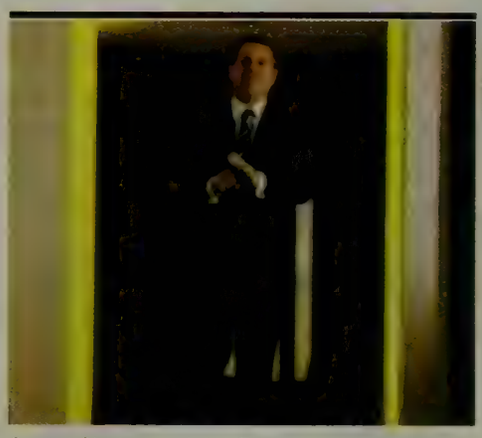
Pro-action

IN DECEMBER Centel Corp. Chairman John Frazee told FORBES that Centel's NYSE-listed shares—then trading at 30—were undervalued by half *(Dec. 23, 1991)*. The market, seemingly preoccupied by the Chicago-based independent telephone company's $1.4 billion in debt, was overlooking the appeal of Centel's telephone companies and cellular operations in places like Las Vegas, Charleston, S.C. and Norfolk, Va.

On Jan. 23 Frazee, 47, took matters into his own hands. He put Centel on the block, hiring Goldman, Sachs and Morgan Stanley to find buyers or partners. By the end of the day, Centel's shares, which had already risen 23% since the FORBES story, closed at 46, up nine points.


Michael L. Abramson

Centel Chairman John Frazee
Inviting suitors to call.

"Instead of just sitting around and waiting, we decided to act," says Frazee, who reckoned that Centel's assets were bound to attract suitors in the rapidly consolidating telecommunications business. No offers are currently on the table, but suitors from the Bell operating companies as well as cellular and cable TV companies are likely to come courting.

–GARY SLUTSKER

Growing pains

WACHOVIA CORP. is conservative when it comes to making loans, but it's not afraid to take intelligent business risks. FORBES praised the North Carolina bank, then the nation's 30th largest (assets, $26 billion), for its cautious lending and clean balance sheet *(Nov. 12, 1990)*.

Charles Gupton

John Medlin Jr. of Wachovia Corp.
Cleaning assets as he moves along.

Chairman John Medlin Jr., who joined the bank in the 1950s when it was still cleaning up its Depression-era loans, is bouncing over a rough patch himself right now. In its fourth quarter, ended Dec. 31, Wachovia took a $138 million charge against earnings to bring the books of recently acquired South Carolina National Corp. in line with Wachovia's strict accounting standards. That saddled Wachovia with a $41 million quarterly loss and helped slice full-year earnings by 35%, to $230 million. Medlin isn't apologizing. "It's unlikely we would ever find a bank as conservative as ours. If you want to do a merger, you just have to clean it up and move on," he reasons.

South Carolina National, the state's largest bank, should bolster Wachovia's interstate franchise in North Carolina, South Carolina and Georgia, where it owns First Atlanta (assets $9.1 billion). And even after the merger, Wachovia has just $311 million in nonperforming assets, or 1.5% of loans, ranking it fifth among the country's 50 largest banks.

Revenge of the little guy

CAN BIG BANKS be sued for foisting shoddy loans on smaller banks and investors? Last year New York Federal Court Judge Milton Pollack dismissed lawsuits accusing Security Pacific National Bank of syndicating $77.5 million in loans it knew were shaky. The plaintiffs, including Saudi American Bank and the retirement plans of Atlantic Richfield Co., argued that the loans were securities and that the deals constituted securities fraud. But Judge Pollack ruled that the plaintiffs were presumably sophisticated investors who should have known what they were buying *(May 27, 1991)*.

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For example, the Legacy LSi Sedan, which costs many thousands less than the cheapest Mercedes, offers most of the amenities you'd only expect from a fine, absurdly priced luxury car:

Soft grain leather seats. All-Wheel Drive. Compact disc player. Moonroof. Driver's-side air bag. The 4-Channel Anti-Lock Braking System which monitors each wheel to help prevent the car from locking up during emergency stops. And the Legacy is also blessed with numerous other engineering features which translate into the type of durability Subaru is famous for.

(Important selling point – 93% of all Subaru cars registered in the last 10 years are still on the road and running today.[1])

Now, if you've read this far, you'd probably like a second opinion about the Legacy. Alright, here's one from *Car and Driver:* "The Subaru Legacy is the nicest driving, least expensive, and best equipped 4-wheel drive sedan on the market."[2]

We repeat – nicest driving, least expensive, best equipped.

So if you're into haughty status symbols, go into the closet and grab that medallion off that ancient Nehru jacket and affix it to the hood. Or, then again, with all the money you'll be saving on your new Legacy you could just imagine you're driving the world's peppiest, most elegantly styled Brink's truck.

Subaru Legacy LSi

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[1] Based on R.L. Polk & Co., registration statistics. [2] May, 1990. For additional information, 1-800-284-8584. © Subaru of America, 1991.

FACT: Using an Irrevocable Trust Can Reduce Estate Tax Costs by 75% or More.

Much has been written about the value of Life Insurance and the ways in which this financial tool can help significantly reduce estate taxes. The subject is complex and the advice given is often conflicting, confusing, or misinformed. For individuals with assets above three million this issue is critical. But for those who know the facts about Life Insurance and estate planning, the answers are simple.

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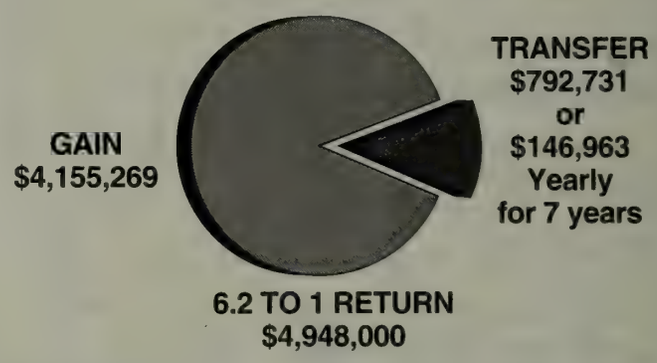

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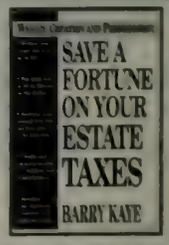

"Much useful advice from a pro."– Forbes

They appealed to the Second Circuit Court of Appeals. Last month the Securities & Exchange Commission said that Security Pacific was indeed selling a form of securities, meaning that the plaintiffs could sue for securities violations. If the court rules for the plaintiffs—a decision is expected by early spring—it could spark a rash of suits against big banks like Citicorp, BankAmerica and Bankers Trust. –SETH LUBOVE

Out of the woods?

LUMBERING GIANT Weyerhaeuser Co. may finally be picking up speed. FORBES blasted the $8.7 billion (1991 revenues) forest products firm's intractable family-run management, led by longtime Chairman George Weyerhaeuser, for favoring raw logs over more profitable finished products *(Oct. 28, 1991)*. Over the last five years the Tacoma,

Weyerhaeuser's Longview, Wash. sawmill
Is management getting fired up?

Wash.-based firm ranked last in its industry in return on equity.

But new Chief Executive John Creighton Jr., one of the few nonfamily leaders in Weyerhaeuser's 92-year history, is injecting some adrenaline. In January, six months after Creighton took charge, the company announced that it would take an estimated $344 million hit to earnings. Around a third of that went to close old mills. (On the year, Weyerhaeuser reported a net loss of $162 million.) Creighton is also reemphasizing higher-margin papers and paneling and rewarding mills for profitability.

But Weyerhaeuser has a history of fruitless restructuring. With 65-year-old Chairman George Weyerhaeuser still in control of the board, this may be yet another.

–KATARZYNA WANDYCZ

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Lorenzo flies again

DESPITE THE seven-year noncompete agreement he signed with Continental Airlines in 1990, Frank Lorenzo seems to be trying to get back into the airline business. Sources in Houston say Lorenzo and Jose (Pepé) Kuri-Breña, who worked with Lorenzo at Continental and then at Mexicana Airlines until last fall, are trying to buy into Taesa. Based in Mexico City, Taesa flies to several Mexican cities. Taesa is trying to expand its scheduled service out of Mexico City and develop charter operations linking the Mexican Caribbean resort of Cancún to the U.S. and Canada.

North of the border, Savoy Capital, Lorenzo's Houston-based investment firm, is serving as a consultant for MarkAir Inc., a small airline based in Anchorage, Alaska. MarkAir, owned by Neil Bergt, former head of Western Airlines, used to be an in-state puddle jumper that carried passengers, fish and mail. Now it's expanding into Seattle and recently added six Boeing 737s to its fleet. Savoy Capital is helping MarkAir find financing, which may include an IPO in March by Kidder, Peabody.

Through a spokesman, Lorenzo, who is still a director of Continental, denies plans to purchase any Mexican airlines. –CLAIRE POOLE

Rob Kinmonth

Frank Lorenzo

Succession question

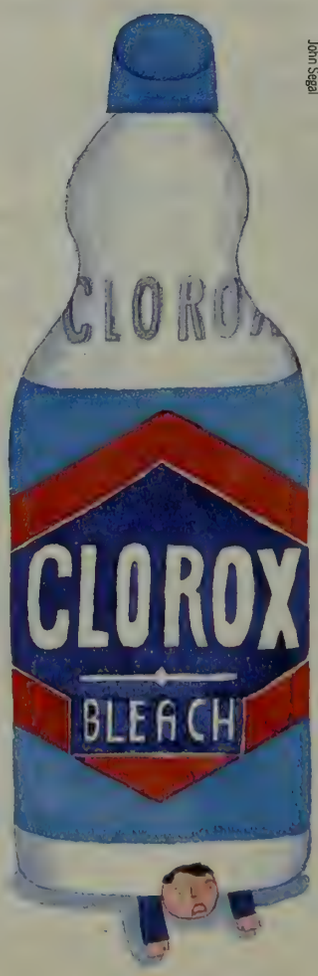
WHEN A retiring chairman pushes his replacement to his board, directors usually comply. Not so at the Oakland, Calif.-based Clorox Co.

In December Clorox's longtime chief executive, C.R. (Chick) Weaver, 63, announced that he would retire from the company this summer. Weaver supported President Robert A. Bolingbroke, a 30-year Clorox veteran, as his replacement. But rather than give Bolingbroke the nod, the board set up a committee to find a successor.

Clorox's recent results may have something to do with the board's hesitation. In fiscal 1991, which ended last June 30, Clorox's earnings dropped 66%, the victim of a $78 million writeoff to cover the costs of exiting the detergent business and closing plants. Although the company's earnings were up 16% in 1992's first half, the company's core bleach business is under pressure.

Clorox officials expect to pick a new chief executive by April. Bolingbroke, 53, isn't entirely out of the running. The candidate declined to say whether he will leave if he is passed over.

–JOHN H. TAYLOR



John Segal

Dirt, undished

RAKERS OF THE Hollywood muck will be disappointed with this bit of news: One of Tinseltown's messier lawsuits has been settled and sealed.

The argument was between erstwhile moviemaker Jerry Weintraub and his former friend (and former Weintraub Entertainment Group president) Kenneth Kleinberg.

A year ago Jerry Weintraub sued Kleinberg for reimbursement of a $714,000 loan made to Kleinberg that Weintraub had guaranteed and had kept current. Kleinberg countersued, claiming that Weintraub had assured him the loan would never need to be repaid. Unfortunately for Kleinberg, the agreement (if it existed) was not in writing. Weintraub Entertainment crashed and burned in 1990, just four years and nearly half a billion dollars after it was born.

At the end of last year the two parties quietly settled the dispute. Word around town was that Weintraub was desperate to avoid a public trial that might give even the tiniest bit of ammunition to the WEG shareholder suits against him that are still pending. Tinseltown scuttlebutt is that Kleinberg must repay the loan at a rate of $50,000 a year, but only if he reaches a certain level of income. Kleinberg, we understand, is now unemployed. –LISA GUBERNICK

Nabbed

IN THE EARLY 1980s Chilean-born Juan Carlos Schidlowski and pals ran OTC Net, Inc., one of the biggest and smelliest penny-stock boiler rooms ever. Then the SEC came along and ruined their fun, closing OTC Net. Schidlowski and his partners were indicted in a complex securities fraud scheme and pleaded guilty to federal charges of income tax violations.

Rather than go to jail, Schidlowski fled the country in 1986. But then, early last month, Schidlowski tripped up big. He went to Miami, where he was arrested by the feds, who returned him to Colorado to face the consequences of his original plea and to stand trial on new charges of failure to surrender.

Why did Schidlowski dare to venture back to the U.S., where things were still hot? That's still something of a mystery. Apparently even crooks get the homesick blues.

–RICHARD L. STERN

No rosy scenario

THROUGH THE 1980s Texas oil heiress Caroline Rose Hunt managed to avoid the disastrous investments that decimated her brothers' net worths. Now she's got troubles of her own.

Last month Travelers Insurance Co. foreclosed on Premier Place, a 20-story silver-glass office tower in suburban Dallas owned by Hunt's investment vehicle, Rosewood Prop-

erty Co. Rosewood executives tried to refinance the $49 million note, but Travelers rejected their offers, choosing instead to take possession of the building.

The foreclosure came five months after Citicorp filed a lawsuit claiming Rosewood was technically insolvent after defaulting, with partner Lincoln Property Co., on a $28.8 million loan for a mixed-use development in Atlanta. Rosewood executives countered that the firm had more than $75 million in equity. When the parties worked out a restructuring of the note, Citicorp dropped the suit.

Still, Rosewood Property is a shadow of its former self. It has shuttered its offices in Philadelphia and Hartford and put some major new projects on hold. Caroline Hunt's overall empire has shrunk from nearly $1 billion five years ago to about $500 million today. The bloom is definitely off this rose. –C.P.

Dogfight

AS REPORTED IN the *Los Angeles Times* late last month, Time Warner Inc. is embroiled in an embarrassing lawsuit with film writer and director Gyorgy Fodor. A French citizen who claims to have been a jet fighter pilot in the Hungarian air force, Fodor charges the media conglomerate stole his film script submitted to the Warner Bros. studio about the radar-eluding B-2 bomber and turned it into a Warner Books thriller called *Target Stealth*, by Dennis Anderson. Time Warner and writer Anderson deny the charges. But a U.S. District Court in Los Angeles has not dismissed Fodor's suit. In pretrial proceedings the judge noted: "The general ideas of the two works resemble each other greatly."

According to Fodor, Warner Bros. general counsel John Schulman has pressured him to drop his $5 million suit. Fodor quotes Schulman's threatening him with the venerable Hollywood line: "You'll never work in this town again." Schulman denies this remark and calls the suit meritless.

But Fodor, 39, is sticking to his guns. And why not? He is being represented by the firm of 84-year-old trial lawyer/celebrity Melvin Belli, who's working on a contingency-fee basis.

–WILLIAM HEUSLEIN

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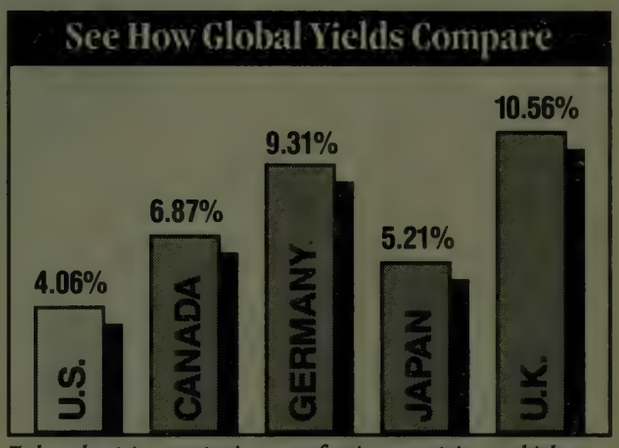

Today, short-term rates in many foreign countries are higher than in the U.S. This chart compares three-month Eurodeposit CD rates as of 1/15/92. Rates are not intended to reflect the yield or investments of the Fund. Source: Reuters.

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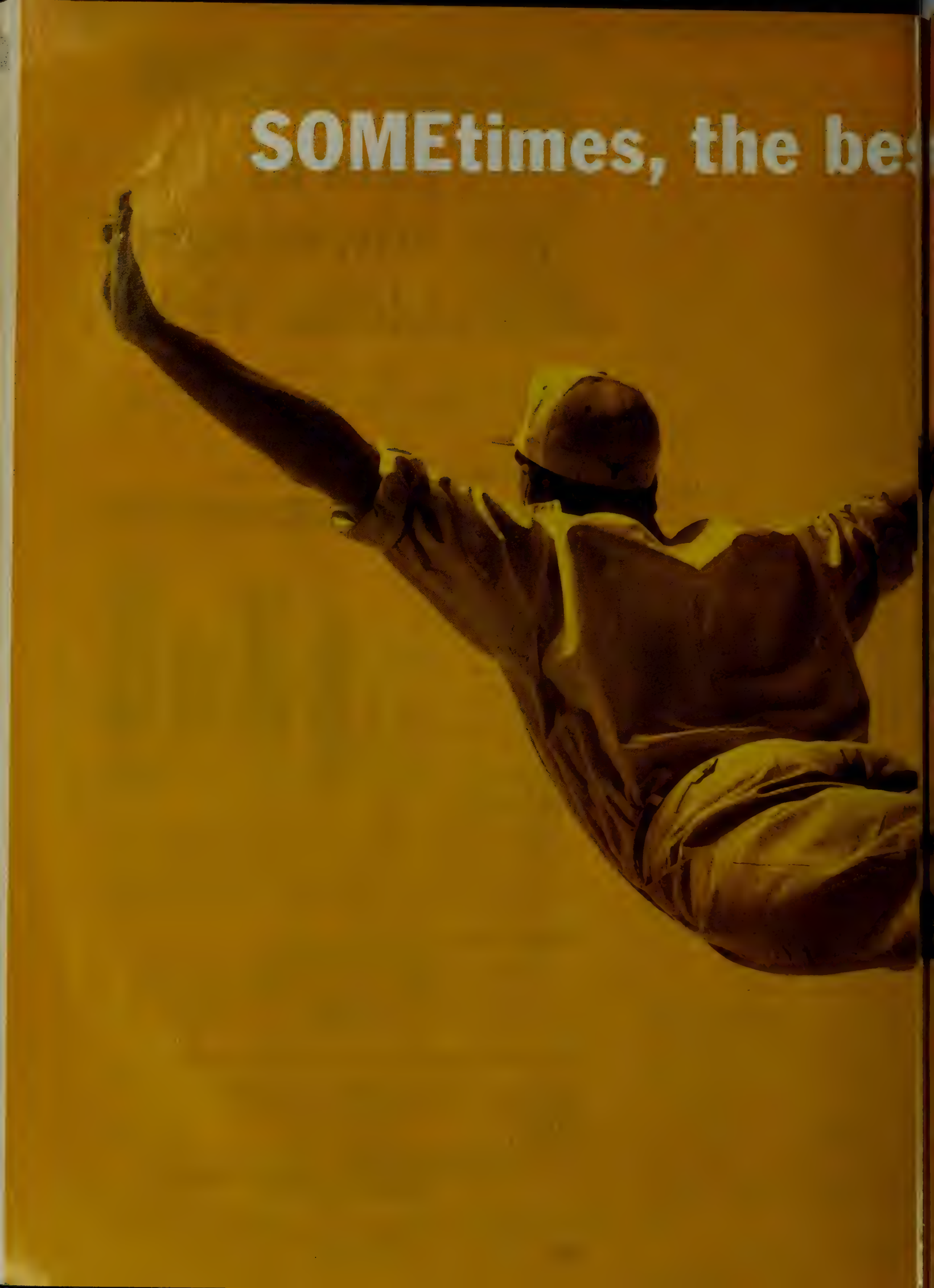
SOMEtimes, the bes

ing to do is *wing* it.

"The Spirit of St. Louis was a boxy plane.
It did not advance aeronautics by a single inch.
Yet it did nothing less than change the world."
Who said that?
The man who designed and built
the first human-powered-aircraft. Paul MacCready.
How did he get *his* idea?
(A little birdie told him.)
At first, nothing worked. His designs were doomed
by traditional thinking.
Success didn't come until he approached the problem
from a completely different perspective.
(Without mind-numbing preconceptions.)
"I kept aerodynamic principles in mind,
but I had to pretend I'd never seen an airplane."
So his inspiration became the way birds fly,
instead of the way machines fly.
(Sometimes you have to forget what you know
to make a breakthrough.)
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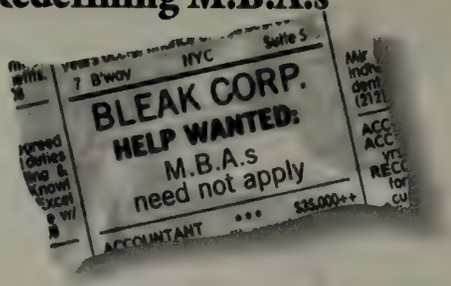
Redefining M.B.A.s



SIR: Re "Another boom ends" *(Jan. 20)*. Business schools should continue to aggressively evaluate their efforts and the degree to which an M.B.A. program satisfies both market and student needs. I hope your article will provoke thoughtful analysis and even positive action.
–PROFESSOR MEYER FELDBERG
Dean
Columbia Business School
New York, N.Y.

SIR: I was disturbed by a reference to FDU and Pace as "M.B.A. mills," which would be the first to go out of business. Customers vote with their wallets, and the steady and consistent growth in enrollments our M.B.A. program has enjoyed reflects market confidence in the university.
–BERNARD H. TENENBAUM
Director
George Rothman Institute of Entrepreneurial Studies
Fairleigh Dickinson University
Madison, N.J.

SIR: The article did a good job of emphasizing a point that is important not only to business schools but to all of higher education: the importance of a customer orientation.
–WILLIAM K. LAIDLAW JR.
Executive Vice President
American Assembly of Collegiate Schools of Business
St. Louis, Mo.

SIR: I graduated from the Stanford Business School in 1989, having received what I think is a fantastic education, and entered the real estate investment and development field. I am working in the upper management of a company under a veteran of the field, who has made it possible for me to see how little I really know about putting together deals.
–KEN RANDALL
Portland, Ore.

SIR: The motivation of an M.B.A. is not only a better job. The goal is mostly a search for a different job. The elite M.B.A. schools are populated by career switchers that would pay anything to change the careers they selected during their undergraduate studies. I'm glad every month when I make out my $187 payment on my student loan.
–STEVEN SILBIGER
Senior Competitive Analyst
Nutri/System
Blue Bell, Pa.

Not one and the same

SIR: Re "A southern saga" *(Dec. 23, 1991)*. Your recent article on Kentucky Central Life Insurance Co. has prompted inquiries to our company, Kentucky Home Mutual. The inquirers, unfortunately, have assumed that Kentucky Central and Kentucky Home Mutual are one and the same. This, of course, is not the case. Kentucky Home Mutual is rated "A" (excellent) by Best's and "A+" by Duff & Phelps.
–JAMES M. OUIMET
President and Chief Executive Officer
Kentucky Home Mutual
Louisville, Ky.

The wrong man

SIR: Re "Who will be the next TR?" *(Fact and Comment, Jan. 20)*. Teddy Roosevelt denounced the "malefactors of great wealth" and claimed big business victimized the poor. Calling for President Bush to usher in a new progressive movement is like calling for the slaughter of what little freedom remains in this mixed economy.
–SCOTT M. HOLLERAN
Glendale, Calif.

Self-sufficient

SIR: Re "Forest products & packaging" *(Jan. 6)*. You assert that "Boise Cascade and many smaller private companies heavily reliant on government-owned wood could suffer if supplies tighten and prices rise." Our relatively high degree of fiber self-sufficiency will allow us to be among the handful of companies that remain in the region after the dust settles to capitalize on the new balance be-

tween timber supply and productive capacity.
–RICHARD B. PARRISH
Senior Vice President
Timber and Wood Products Division
Boise Cascade
Boise, Idaho

The real thing

SIR: Re "Good-bye, hair shirt" *(Jan. 6)*. You implied that Chrysler President Bob Lutz's Cobra is a replica kit car. Bob's car is a real aluminum-bodied A.C. Cobra Mark IV, made by Autokraft/A.C. Cars.
–J. ARTHUR URCIUOLI
Riverside, Conn.

The M.B.A. literati

SIR: Luigi Salvaneschi claims that M.B.A.s "are frightening. Absolutely frightening" ("Dante, M.B.A.," *Jan 20*). I'm sorry to hear that, but perhaps he can take some solace from the fact that there is at least one M.B.A. in America who reads Virgil like him.
–JOHN J. DUNNE
Scottsdale, Ariz.

Tailor-made

SIR: Re "Self-made press lords" *(Dec. 9, 1991)*. A custom magazine may have a higher cost per reader than does traditional advertising, but there is no waste circulation or competition from other advertisements. The overall cost of a custom magazine program is a fraction of what a company typically spends on traditional advertising.
–JOHN B. CALDWELL JR.
President
Marblehead Communications
Boston, Mass.

Risky business

SIR: Graying boomers considering motorcycles might want to check with an orthopedic surgeon before getting on the saddle ("The graying wild ones," *Jan. 6*). Middle-aged people don't fare as well in a crash as a teenager. It's been almost a year since my bike accident (shattered leg, multiple compound fractures to arm, broken rib), and I'm only 37.
–JAMES NICHOLS
San Mateo, Calif.

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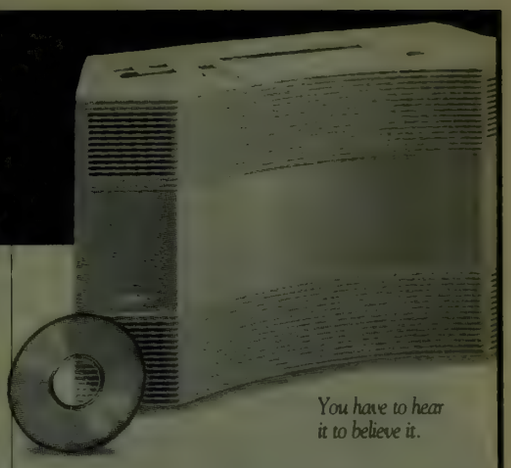

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Frigo employee Frank Gemignani and his family.

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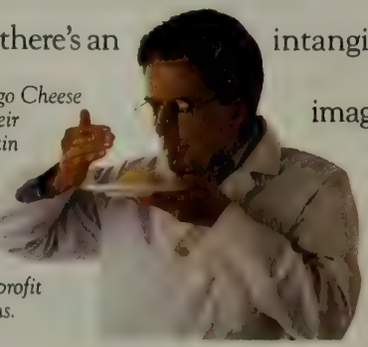

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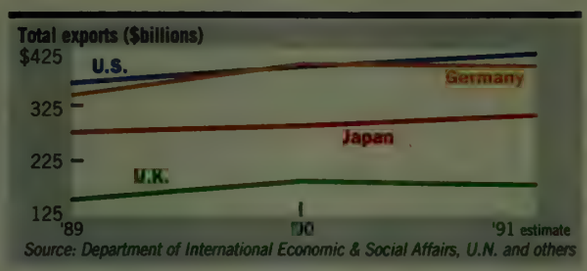
Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

A WIDELY BELIEVED MYTH

is that the U.S. is no longer competitive in international markets. U.S. exports have grown impressively in recent years. No nation today sells more beyond its borders than we do. Why do so many Americans believe no one wants to buy what we make?



Source: Department of International Economic & Social Affairs, U.N. and others

WILL HISTORY PUNCTURE PRETENTIOUS PUNDITS?

THAT SUPERB STATE OF THE UNION focused mostly on domestic issues. Commentators, including occasionally this one, have reproved the President for overly concentrating on foreign affairs. Will historians regard this criticism as on target in the context of these times?

Communism has collapsed. The Soviet Empire has fallen to pieces. The West has won the Cold War. Just a year ago the U.S. pulled off the most sensational military victory in more than 500 years. Can a President be forgiven for spending the preponderance of his time on these momentous events?

Jacques Witt/Sipa Press

The nation has had recessions before, and we have had worse ones than this. Despite the pervasive pessimism, the economy will soon expand. The President's capital gains tax cut proposal and his determination to pass it guarantee that.

Pontificators like this one will continue to put forth proposals for pumping up the President's popularity and for producing economic prosperity. But these seemingly penetrating pieces don't necessarily preclude the possibility that posterity will treat our pronouncements less as profundities and more as products of our posteriors.

HOW FORBES FIGHTS MEDICAL INFLATION

LIKE COUNTLESS OTHER companies, FORBES was hit with gargantuan increases in its health insurance premiums. And like so many others, we've had to respond by increasing deductibles, upping the proportion of premiums paid by employees, offering HMO alternatives, etc.

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We are rewarding those who stay healthy and those who avoid filing claims for smallish medical expenses. People here can earn up to $1,000 of extra income.

Here's how our carrot works: If someone's total claims are under $500 for this calendar year, we'll pay him or her not only the difference between what this individual submits and the $500, but we also will double it. By filing no claims, an employee will receive $1,000 ($500 x 2). Should he submit medical claims of $300, his reward would be $400 ($500 - $300 = $200; $200 x 2 = $400). Thus, he comes out ahead if his total submissions are under $1,000. (Say his expenses are $900. If he doesn't submit them to the insurer for reimbursement, he will receive that $1,000 and come out ahead by $100.) People are recognizing that each one dollar of claims can cost them two dollars.

The purpose of this incentive is simple: to cut down on routine expenses. These submissions are time-consuming and costly. Paperwork is mountainous. In many cases, the handling charges equal or exceed the reimbursement. It would be as if the U.S. had a home insurance system through which you filed a claim every time you broke a glass or ripped a sheet.

Our medical insurance system today makes people oblivious to price. The attitude is: "Let the insurance company pay for it." We all end up paying more for bloated expenses and gross inefficiencies. Medical inflation will drop sharply when tens of millions of consumers, instead of insurance companies and government bureaucrats, are policing costs. The way to do this is to give the tax breaks for medical insurance premiums to individuals rather than to employers. What people really need is coverage for major illnesses or accidents, not for everything else.

Early indications are that our plan is beginning to work.

One colleague told me he noticed that his medication cost $43 at one drugstore and $28 at another. It never would have occurred to him to "shop" for his prescription before.

Other companies should consider such incentive-oriented experiments. Free enterprise can work with health care just as it does with food, shelter, etc.

BOWING TO THE WIND IS A BLOW TO SCIENCE

FDA COMMISSIONER David A. Kessler has sacrificed science to hysteria with his decision to halt sales of silicone gel breast implants pending "further study." He caved in to emotions whipped up primarily by trial lawyers looking for new ways to pick the deep pockets of insurers for physicians and pharmaceutical companies. Implants have been used for 30 years by millions of women. There have been serious complications in less than 1% of these operations. Kessler's move was based on anecdotal horror stories and a handful of out-of-context internal corporate memos.

USF, Inc.

"FDA Chairman Kessler today called for a moratorium on people leaving their homes because 'It's risky out there.' "

Now those who wish to undergo this procedure must travel to Mexico, the Caribbean or Europe.

Commissioner Kessler exhibited all the backbone of an eclair, er, silicone jelly.

SUCCESSFUL SUCCESSION

AS AN ADOLESCENT, I quickly learned how utterly indispensable the *New York Times* is to learning what is going on around the world. During summer vacation auto trips to Wyoming, this novice news junkie was stunned by the difference between the rest of the nation's newspapers and the comprehensive *Times*.

Despite the proliferation of cable TV and the immediacy that it and the networks now give to world events, the *Times* is still the essential source. It's no coincidence that nightly news shows use it as their guide for what is important.

It was thus with enormous relief that *Times* addicts greeted the news that CEO Arthur Ochs "Punch" Sulzberger was passing the publisher's baton on to his enormously able son, Arthur Jr.

New York Times

Even a newspaper as great as this one will falter if it is in weak hands. Twenty years ago profit margins for the old gray lady were fast shrinking, and a growing number of readers felt the paper was turning stale. Punch Sulzberger engineered a brilliant renaissance.

Arthur Sulzberger Jr. is well-versed in the workings of the *Times*. He is very sensitive to the paper's constituencies and to the needs of local, national and international readers.

This vital institution will continue to flourish.

PICTURE PHONES—BOO!

AT&T HAS UNVEILED a TV telephone where parties can see each other as they talk away. Has Ma Bell gone off her rocker?

There is no better device to discourage telephone use than this one. You won't be able to frown, roll your eyes, yawn, read the paper, sip your coffee while conversing. You will have to think about how you look—is the hair combed, the makeup on, the five o'clock shadow attended to, the tie knotted right? And bye-bye to blind dates.

This gizmo will destroy all those excuses and white lies that lubricate our lives. No longer will you be able to call home from a saloon claiming you have been delayed at work. Mistresses will have to redecorate their apartments to look like their lovers' offices. Only 900-number purveyors of pornography will welcome videophones.

AT&T introduced a clumsier, more expensive version 25 years ago. It was a flop. This will be one, too.

RESTAURANTS—GO, CONSIDER, STOP

Here is the distilled wisdom of brothers Bob, Kip and Tim, and other FORBES *eatery experts Jeff Cunningham and Tom Jones.*

● **Aureole**—34 E. 61st St. (Tel: 319-1660). Should have been a Four Star in our year-end New York restaurant firmament and was inexplicably left out. Food here is superb. Presentation, too—large plates with just the right amount of food elaborately arranged. You must sample the bittersweet chocolate timbale and the crème brulée—the best we've had in a long time. Surprisingly good acoustics: You can hear what your partner is saying.

● **Remi**—145 W. 53rd St. (Tel: 581-4242). Murals of Venice make a lovely setting. Tuna carpaccio in an olive oil and basil dressing is outstanding; pastas are excellent.

● **John Clancy's East**—206 E. 63rd St. (Tel: 752-6666). Memorably delicious seafood. House wine superb.

● **Barbetta**—321 W. 46th St. (Tel: 246-9171). This classic theater district grande dame could be one of the most elegant, charming places in town. If only it were spruced up and, most important, the food were better.

● **Periyali**—35 W. 20th St. (Tel: 463-7890). Enjoyable, not excessively expensive experience. There are photos of the Greek islands and Greek wines on the menu, but only at dessert time does Greek traditional cuisine dominate the menu (baklava and other honey pastries). ■

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How to look like

It would seem the path to success for many cars today is to emulate some established, renowned thoroughbred

However nothing can ever look like a Porsche quite like another Porsche. Because each and every model since our first, handbuilt roadster emerged over 40 years ago has been driven by a unique philosophy, founded in pure function. Still, while that means all Porsches share a certain family resemblance, even within the Porsche stable there are variances in both price and rarity.

The 959 shown on the left possesses a silhouette that would make it seem you have seen it often. Yet, it is one of only 200 such "rolling test beds" in existence. A 200 mph Supercar project that allowed our engineers to explore what would be possible by the turn of the century. Literally a physics lab on wheels.

Which brings us to the new 968, shown on the right. In typical Porsche fashion, it is an amalgam of everything we have learned to this moment. Futuristic thinking, melded with the classic Porsche essence. So it is only natural it would bear a resemblance to the 959, along with other forebears. Is it heresy that a new $39,850* production car look so strikingly like a car that collectors pay close to $1,000,000 to acquire? No, it's simply part of the evolution which provides Porsche drivers with a heritage unduplicated in automotive history.

Porsche 959:
About $1,000,000 if you can find one.

© 1991 Porsche Cars North America, Inc. Porsche recommends seat belt usage and observance of all traffic laws at all times.
*$39,850 MSRP of 1992 968 coupe excludes taxes, license and registration fees. **Comparison of EPA Federal Test Procedure results for 968 coupe and 944S2 coupe.

Porsche 9

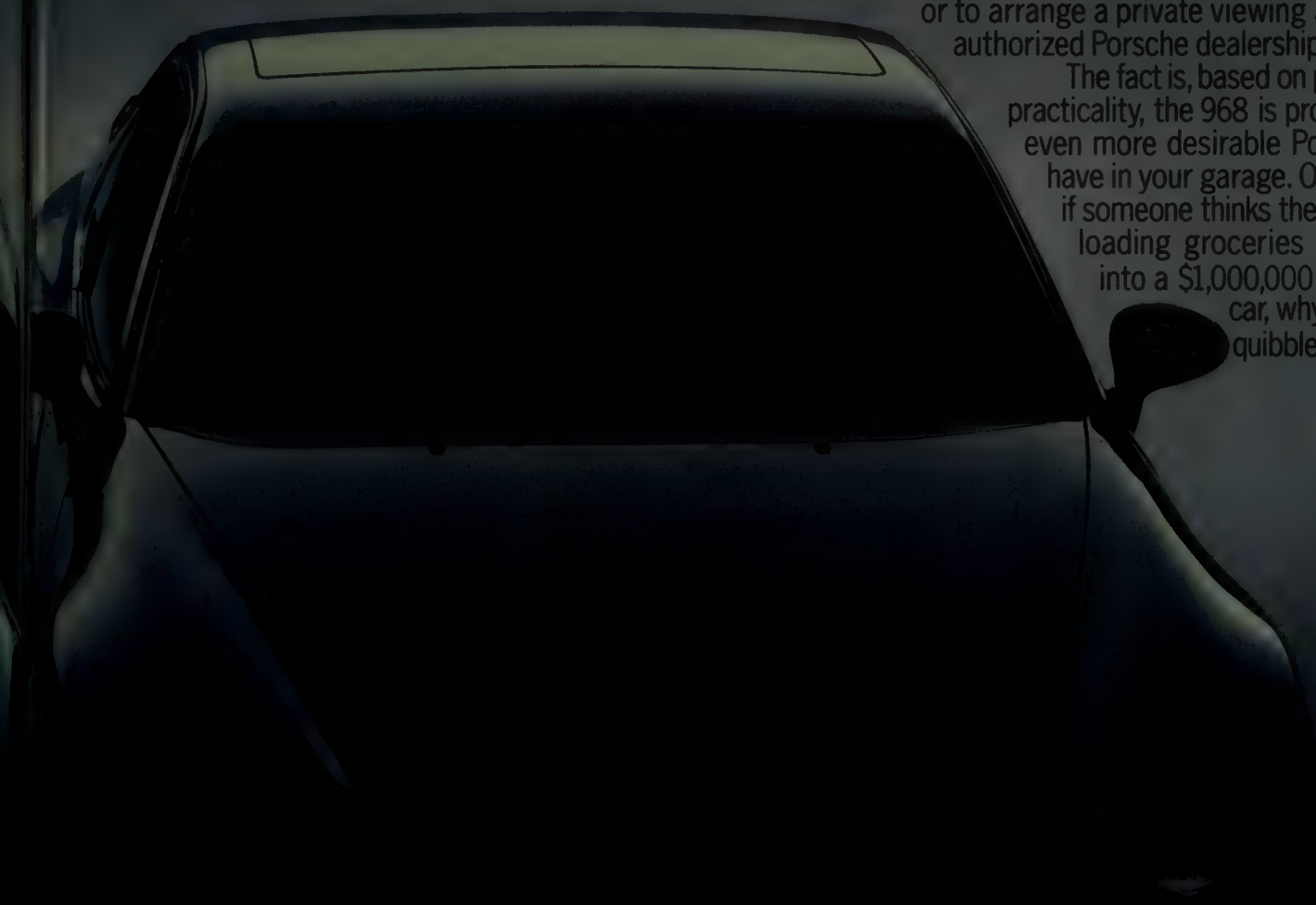
million bucks.

The 968 not only shares lines with the 959; it shares thinking, as well. You will find evidence of the 959 in the new wheel design, carefully sculpted to reduce rotating mass and improve brake cooling. You will find it in the body aerodynamics, which actually use airflow for purposes such as directing rain spray away from the windshield. The principle of "internal aerodynamics" carries over as well, in which meticulous shaping of underbody components speeds the flow of air through the chassis to reduce drag and lift, while providing more prodigious cooling.

Then again, the 968 brings along new thinking of its own. Like the patented new Porsche VarioCam™ which continuously varies valve timing to burn fuel more thoroughly and efficiently, providing more power and instant throttle response while dramatically reducing emissions.** Plus details like a patented new headlamp system that uses the principle of a bee's eyes, employing over 1,000 reflective facets to provide variable point focus and cut reflected glare.

As you can see, even since the 959, with the new 968 we have moved on. Call 1-800-252-4444 for more information, or to arrange a private viewing at your authorized Porsche dealership.

The fact is, based on pure daily practicality, the 968 is probably an even more desirable Porsche to have in your garage. Of course, if someone thinks they see you loading groceries into a $1,000,000 car, why quibble?



Porsche 968:
from $40,000 at your local dealer.

e next evolution.

Other Comments

Supreme Phrasemaker

DEVOTED to Edward VIII to the last, Winston Churchill lunched with him on the very day he made his abdication broadcast and apparently wrote every word of it for him, as the King was all but incoherent. It was one of Churchill's finest efforts, straight from the pages of a romantic novel and full of phrases that would catch the heartstrings of the nation.
–*The Private Lives of Winston Churchill,* by John Pearson

Fanning the Flames

A DOW CORNING CORP. executive acknowledged that the company has been considering the possibility of abandoning the breast-implant business. The company faces, as do other implant makers, a proliferation of liability lawsuits by women seeking millions of dollars in alleged damages. Robert Rylee [a vice president of Dow Corning] said that [the company] is releasing 90 corporate documents as requested by the FDA. "By releasing this old internal company correspondence, we will be doing nothing to address real science and safety issues surrounding breast implants," he said. "In fact we are doing nothing more than fanning the flames created by contingency-fee lawyers who base their cases against manufacturers not on what the scientific evidence shows, but on 15-year-old memos that state one person's opinion about what research should have been done."
–BRUCE INGERSOLL,
Wall Street Journal

The Democrats can't get elected if they spend a billion dollars.
–HORACE BUSBY, campaign manager for Lyndon Johnson, 1964, in a discussion on campaign financing with seven other former presidential campaign managers, on the PBS program, *Campaigning for the Presidency*

The Sole Role

AS A MEMBER of the metropolitan staff [of the *New York Times*] Mr. [Arthur Ochs] Sulzberger Jr. became an assignment editor for a year, which he described as "the single most exhausting job I ever had." This was his first management experience. "I was not a great manager, but I walked around a lot, often without shoes on, and that walking around will cover a multitude of sins," he said, adding that he concluded that the fundamental role of a good manager is motivation.

"It's no different from now," he said, and, indeed, he still walks around a lot, speaking to people in the newsroom, but wearing shoes.
–*New York Times,*
reporting on the naming of Arthur Ochs Sulzberger Jr. as its publisher

Reject False Concepts

SOVIET-STYLE communism may have lost its power to move men, but we will *not* be able to complete or consolidate the victory of freedom until we defeat the utopian vision of the omnipotent state. Completing and consolidating victory means continuing to spread the word of freedom and supporting political and economic reform instead of the status quo. Here in the United States, completing and consolidating freedom's victory also means not giving in to the mistaken idea that central planning, as long as we call it something other than communism or socialism, can work.
–KEN TOMLINSON, editor-in-chief,
Reader's Digest, at Hillsdale College

Fantastic Phrases

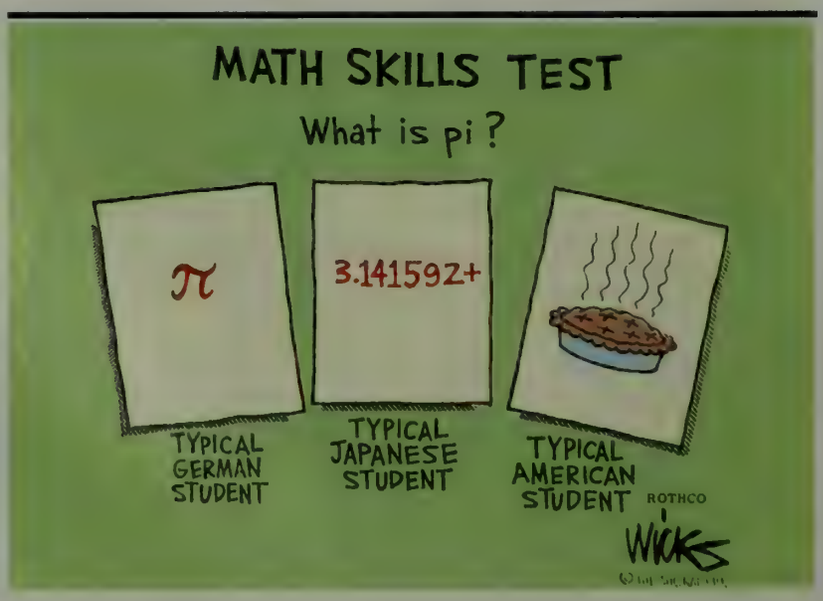
HERE IS my annual fantasy of what certain public figures might have said about—or to—others on New Year's Eve.

Bush Chief of Staff Sam Skinner on Congress: "After all is said and done, more is said than done."

Treasury Secretary Nicholas Brady's response to Democratic claims of tax unfairness: "Let us tax rich bachelors heavily—it is not fair that some men should be happier than others."

Edward Finkelstein, chairman of R.H. Macy, on the slow Christmas season: "When people don't want to come, nothing will stop them."

All presidential candidates on former Governor Jerry Brown: "He has lost the art of conversation but not, unfortunately, the power of speech."
–MORTIMER B. ZUCKERMAN,
editor-in-chief,
U.S. News & World Report



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YOUR SHIELD AGAINST THE UNEXPECTED.

Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

A TALE OF TWO CITIES

DUBLIN in the Irish Free State and Belfast in Northern Ireland are cities of many differences—but even more similarities. The biggest contrast Steve and Christopher Forbes and I encountered on a recent trip there was between the U.S. perception of Northern Ireland and the reality.

As to Dublin: It is a busy, bustling city, with a full appreciation of the importance of tourism and the trade that visitors bring—and a consequent desire to end the turmoil and troubles between the North and South.

We did not, so far as we know, talk to any members of the IRA. But we found a great unanimity among the business and government people we did meet in their desire to work with responsible elements everywhere to improve the impression Americans have of Ireland. They are as unhappy with the IRA as we are with any terrorist group.

Harold Harris/The Stock Market

Andrea Pistolesi/The Image Bank

Jonty cart in Killarney; Northern Ireland's Dunluce Castle

I was particularly struck by the number of Northern Ireland enterprises, such as the Northern Ireland Tourist Board, that have offices or branches in Dublin. International banks and businesses operate in both cities, and there is substantial tourist flow back and forth across the border. Anglican churches, of course, hold services in Dublin, as do Catholic churches in Belfast.

It is true that there are too many evidences of the problems that have plagued the island for so many hundreds of years. December saw an increase in IRA bombings in Belfast (and in London), and there was a particularly heinous murder of seven men by bombing near the northern capital a few days after we left. The government remains determined to hunt down all the killers.

The damaged areas are, of course, noticeable, but life goes on in Belfast with little visible evidence of fear or a siege mentality. A large ball with hundreds of guests was held without incident in Belfast's handsome old Victorian City Hall, even though the event had been widely publicized for several days.

Tourism in the North has actually increased, and the number of vacationing visitors has doubled in the last three years. More than £100 million ($178 million) is currently committed to building new hotels and other facilities for tourists in the North.

There is a substantial manufacturing base. A most impressive Belfast operation is Shorts Aircraft, a company that manufactures NATO aircraft, wings for Boeing's 747s and many other high-tech products. Shorts is one of Northern Ireland's largest employers. It operates a supermodern plant, complete with robots and capable of producing, among other things, all the very low tolerance components for a new, highly accurate missile.

Everyone, North and South, praises the quality of the Irish work force—the level of education, the adaptability to new tasks and the high-tech skills.

Peter Brooke, the highly regarded Secretary of State for Northern Ireland, is the top official of the United Kingdom's government in Belfast. He warmly endorses North participation in joint and individual activities in the South, and vice versa.

Brooke has been conducting talks and negotiations that are leading to some reduction in the tension and that could ultimately bring significant progress in the centuries-old conflict. He encountered some strong criticisms for his appearance on a television program, but his position seemed strengthened when he received the strong backing of Prime Minister Major.

The more joint activities, such as industrial development and efforts to attract tourism, can continue, the more chance there will be of reducing terrorism, which all responsible people, North and South, desire. All of which proves again that one of the greatest forces for peace between opposing parties is ever-increasing trade between the two. ■

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Do we have a trade problem with Japan?

TO ITS DISCREDIT, the world's second-largest industrial power is still overregulated by its bureaucracy, as if it were exporting cheap dolls and ashtrays. Many markets, from food to insurance to stocks and bonds, remain administered, with the result that Japan's trading partners can rightly claim Japan is in many instances a protected market that needs opening.

The U.S. media panned George Bush's recent visit to Japan, preferring to see it through Japanese eyes: as a humbled American begging for trade concessions. In fact, however, Bush and his negotiators made real progress in prying open Japan's glass, paper, financial services and other markets. Bush did not start this process; nor will his January trip end it.

Why is Japan-bashing back in style in Washington, in Los Angeles (where local pols yanked a $122 million railcar contract from Sumitomo Corp. of America for the most jingoistic of reasons) and many places in between?

Japanese trade surpluses with the U.S. are subsiding.

A quick look at the chart suggests that Japan's merchandise trade surpluses with the U.S., while large, are already subsiding. From a peak of $56 billion in 1987, Japan's surplus has dropped to around $40 billion last year. As a percentage of U.S. GNP, the drop is even more pronounced. Were it not for Japan's exports of automobiles and auto parts ($30 billion last year), the world's two largest economies would have almost perfectly balanced merchandise trade.

Why, then, is the Bush Administration so worried about Japan's trade surpluses? Because many of the Administration's economists are looking ahead.

The chart shows that when the U.S. economy recovers from a slump—as after 1975 and again after 1982—Japan's trade surpluses also rise as American consumers buy more Toyotas and Sonys to go with their new houses. This was especially true during the prosperous mid-1980s. Despite the sharp revaluation of the yen after the Plaza Agreement in September 1985, our imports of Japanese products continued to surge. Only as recession settled in during 1990 did the trade imbalance improve.

On the Asia tour last month, Bush's close advisers confidently predicted that the U.S. economy will recover in the second half of this year. The stock market agrees. If the advisers and the market are right, then Japan's trade surpluses are likely to begin spurting again this year and next.

"That," said one Commerce Department staffer, "is why we're working on them [the Japanese] to open up their markets now, before the surpluses get out of hand again."

Representative Richard A. Gephardt (D.–Mo.) and all three chairmen of the U.S. auto companies want to force the Japanese to cut their bilateral surplus with the U.S. by 20% a year over the next five years. But with surpluses certain to rise as the U.S. economy recovers, that proposal makes sense, unless Gephardt wants to keep out Japanese cars. In any case, the Administration's staffers on the Asia trip were careful to distance themselves from it. "Not our policy," said one.

Looking ahead to the second half of the decade, the U.S.-Japan merchandise trade account is likely to move closer to a balanced position. Partly this is because Japan will continue to open its markets. Japanese consumers will also buy more goods, easing the pressure on Japanese companies to export.

There's a third reason: Japanese industry has been moving much of its manufacturing base overseas, especially to Southeast Asia.

In 1990 (the latest year for which figures are available) Japan exported over $82 billion worth of goods—much of it capital equipment and semifinished goods—to Southeast Asian nations. It has also made huge direct investments in the U.S. ($83 billion as of 1990, second only to Britain's investments) and in Europe.

Tokyo-based Kenneth Courtis, senior economist at Deutsche Bank Capital Markets (Asia), predicts that the value of Japanese goods manufactured outside Japan will rise from $165 billion in 1990 to over $1 trillion by the end of the decade. Among other things, that means more and more "Japanese" products will, in the years ahead, be exported to the U.S. from factories in Thailand, Indonesia, Malaysia. U.S. business people and trade negotiators will have to stay on their toes lest these developing countries' surpluses present Washington with a new trade headache.

—LAWRENCE MINARD

THE FORBES INDEX

BY TIMOTHY DODMAN

How weak was the economy in 1991? Pretty weak. New housing starts fell nearly 15% last year, to just over 1 million units, the lowest level since 1945. Retail sales gained 0.7% in 1991, the smallest increase in three decades. By contrast, the Consumer Price Index was 3.1% higher in December than it was a year earlier. With weak consumer demand and plenty of excess industrial capacity, corporations may have a hard time raising prices. This could put a damper on the earnings rebound that many expect for the year ahead.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.5%
Auto sales year to date vs 1991[1]	Ward's Automotive	–8.1%
Index of leading indicators Nov vs Oct	Dept of Commerce	–0.3%
Trade balance 12 months ended Nov 1991	Dept of Commerce	–$65 bil
All-commodity producer price index Dec vs Nov[2]	Dept of Labor	–0.4%
GDP 3rd quarter vs 2nd—annualized growth	Dept of Commerce	1.8%
M2 (3-month change)—annualized growth[3]	Federal Reserve	1.6%

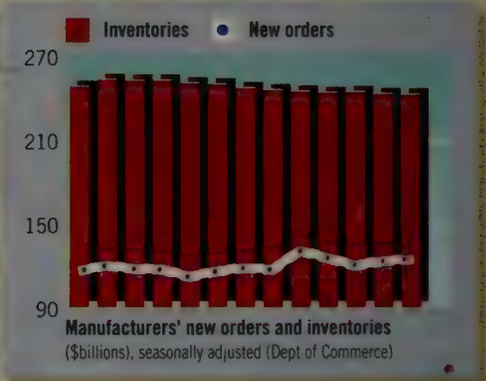
[1] U.S.-based manufacturers, excludes imports, as of 1/20/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

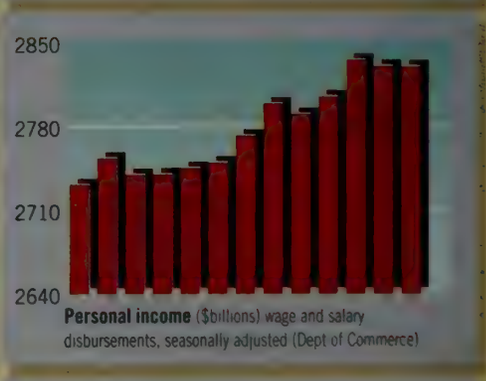
Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)



Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)

Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)

New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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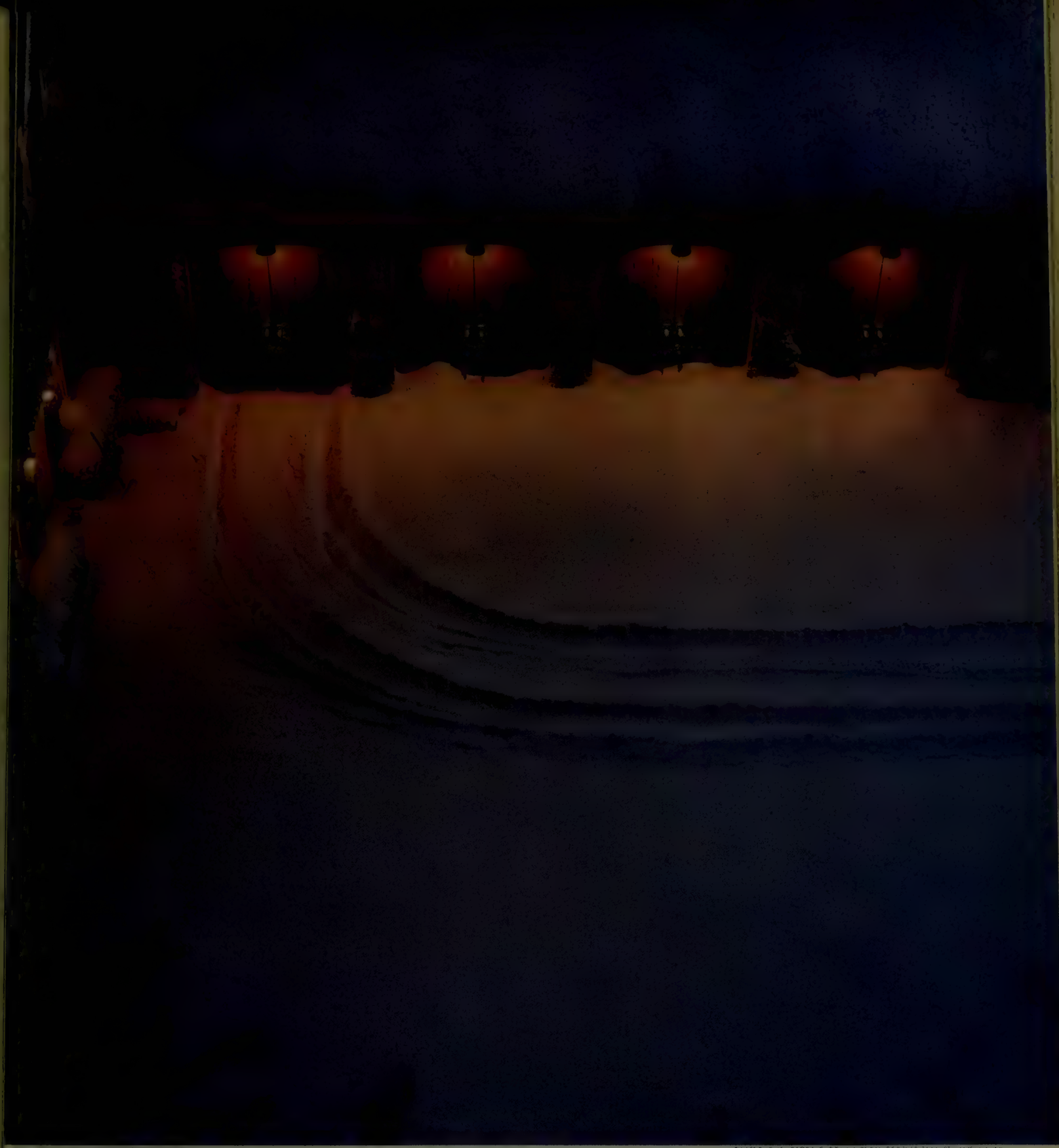

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Granted, with Range Rovers starting at just under $39,000, it's not the sort of thing one should take lightly.

But then, neither is a ton of snow.

Suing for damages has become both a huge industry and a tremendous drag on American industry's ability to compete.

The tort tax

By Leslie Spencer

MILLIONS OF ordinary Americans may be worried about the economy, but 1992 already promises to be another big year for the country's trial lawyers. Arm in arm with the Scientologists, the plaintiffs' bar is in hot pursuit of Eli Lilly, maker of the antidepressant Prozac. A flurry of liability suits is about to engulf Upjohn, maker of Halcion, the popular sleeping pill. On a third front, plaintiffs' lawyers have just filed hundreds of cases against Dow Corning's silicone breast implants, which they hope will enrich them as asbestos enriched them in the 1980s.

Further down the line, plaintiffs' lawyers are assessing their prospects against Nutri/System and HMR 500 diet plans. The Civil Rights Act of 1991 promises to generate countless lawsuits against employers.

How much does all this tort litigation cost the U.S.? Two years ago FORBES reported the tort system's direct costs at $80 billion a year (FORBES, *Oct. 16, 1989*). That figure was based on a study by Tillinghast, a Hartford-based actuarial consulting firm. It represented lawyers' fees, payouts to claimants and insurers' administrative costs in 1985.

The estimate did not go down well with the trial lawyers and the groups associated with them. Last October Joan Claybrook, president of Ralph Nader's Public Citizen, told PBS' *Adam Smith's Money World* that the annual cost of torts is just $30 billion. Claybrook sourced her figure to a study done by Rand Corp.'s respected Institute for Civil Justice, and asserted that the FORBES figure had "no statistical basis whatsoever."

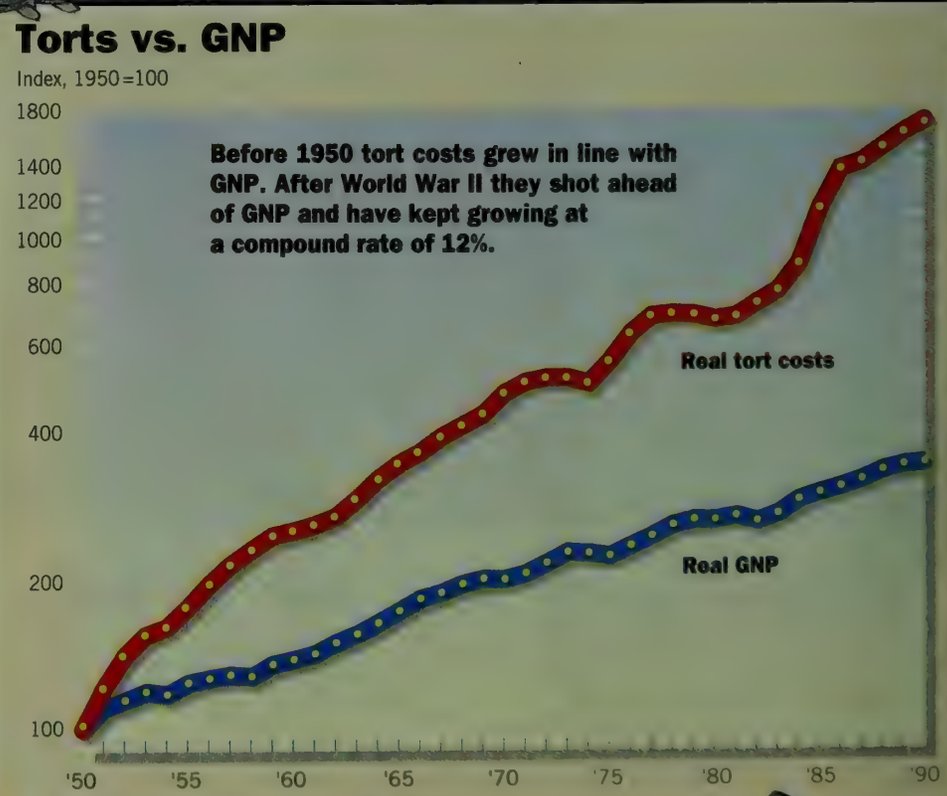
If anything, FORBES' estimate understated the true cost of the tort system. In a recently released update of its 1984 study, Tillinghast analyzed liability insurers' costs for 1987. Its conclusion: Tort claims cost the country $117 billion that year. James Kakalik, coauthor of the Rand study cited by Claybrook, says it is Tillinghast's $117 billion number, not Rand's $30 billion to $36 billion range, that represents the direct "tort tax" consumers end up paying.

Illustrations by Patrick McDonnell

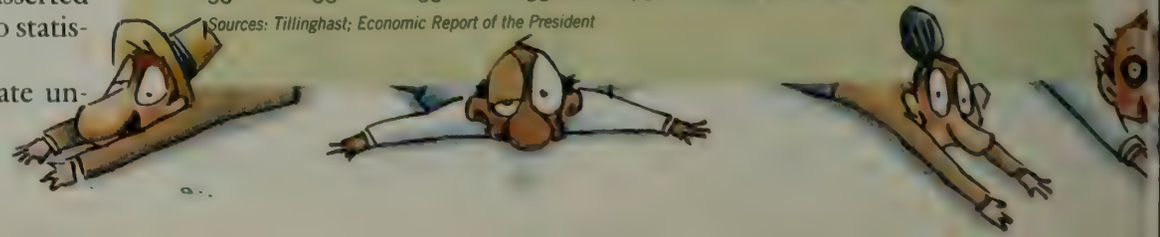
Robert Sturgis, who wrote the latest Tillinghast study, notes that from 1933 until 1950, U.S. tort costs grew in line with the overall economy. Since 1950, however, they have grown at a compound rate of 12% a year—much faster than the costs of workers' compensation, government-paid health care and welfare. Assuming that tort costs kept growing at 12% after 1987, the cost last year came to $184 billion—nearly on a par with the country's net private domestic investment.

Where does all the money go? Both Rand and Tillinghast agree that injured claimants end up with only half of the proceeds from this tort tax. Further, according to Tillinghast, only a quarter compensates economic losses of plaintiffs. (The other quarter pays for plaintiffs' "pain and suffering.") The other half goes to insurers' administration costs and to lawyers to cover their fees and the expenses they incur on things like discovery and expert witnesses.

How could two studies come up with such different numbers? The Rand study set out to measure only the costs directly associated with state and federal lawsuits. The Tillinghast study went further. It took into account such costs as the payments to resolve the millions of potential lawsuits that never reach the courthouse, and the costs to insurers of processing



Charts by A. Christiefortes



claims and defending suits.

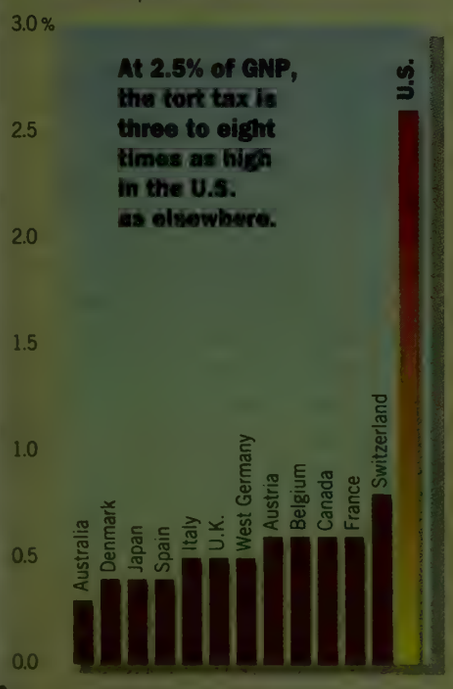
Note that the Tillinghast and Rand studies consider only the tort system's *direct* costs to the economy. Beyond the direct costs are the harder-to-measure—but very real nonetheless—indirect costs incurred in efforts to stay out of the trial lawyers' talons.

For example, a 1989 American Medical Association study estimated that for every $1 they spend on insurance premiums, doctors spend $2.70 performing often unnecessary tests and beefing up record keeping to avoid litigation; this suggests that excluding premium costs of about $5 billion to $6 billion, the indirect tort tax related to medical malpractice liability alone cost the economy about $15 billion that year.

How much of the nation's $738-billion-a-year health care bill can be laid to the tort system? Hard to say, but a 1991 study of auto injury claims in Hawaii by the Insurance Research Council gives some indication. The study reports that medical treatment of a typical neck sprain from whiplash comes to about $1,300 if handled without a lawyer, on a no-fault basis. The cost to treat the same injury if part of a tort claim comes to about $8,000.

Out front and losing

Tort costs as percent of GNP



Source: Tillinghast, 1987 study

One can argue that the right of consumers to sue to recover for injury protects us against incompetent doctors, and manufacturers who make lawnmowers that cut fingers along with the grass. The problem with the argument is that the tort industry has grown so large that it is now reducing the quality and availability of many goods and services.

There are countless examples. Toxic leak detectors, useful to anyone handling toxic substances, were designed in the mid-1970s. But many were kept off the market out of fear of lawsuits should the detectors fail.

Or take small planes. Very few new, technologically advanced single- and

Tort gushers for 1991

Juries handed down these jackpot tort verdicts last year. The top ten total comes in at three times the total of just three years ago.

$127.7 million Chicago	Product liability verdict against drug manufacturer Upjohn Co., alleging that anti-inflammation drug Depo-Medrol caused blindness, which resulted in loss of plaintiff's eye.
$91.3 million Brooklyn	45-plaintiff consolidated award in case tried against Owens-Corning Fiberglas and other asbestos manufacturers. Same jury still deciding product identification, defendant's culpability and punitive damages.
$86.5 million St. Louis	Sum of verdicts against Decom Medical Waste Systems, KML Corp., Bunker Resources, Recycling and Reclamation Inc. and Raymond Adams, for accusing plaintiff of bringing AIDS virus into a hospital. Settled, amount sealed.
$84.5 million Houston	Premises liability award against an apartment complex and its management company in case of children drowned and brain-damaged in complex pool. Settled for $17 million.
$75 million New York	Product liability case consolidating 36 plaintiffs against the Manville Trust, Owens-Illinois and other asbestos manufacturers.
$62 million Santa Ana, Calif.	Insurance bad faith award against Truck Insurance Exchange and Farmer's Insurance Exchange where insurer was accused of failing to pay for insured's legal defense. Judge reduced verdict to $58 million. On appeal.
$61.2 million Anchorage	Insurance bad faith case against underwriters at Lloyd's of London for failure to pay a restaurant owner's fire insurance claim. On appeal.
$47 million Houston	Product liability case against Fibreboard and three other asbestos manufacturers for 275 plaintiffs.
$35 million Los Angeles	Finding against California for failure to maintain center barrier of interstate highway in case of accident resulting in quadriplegia to a 34-year-old man. Settled for $15 million.
$33.8 million Corpus Christi	Product liability award against Merrell-Dow Pharmaceuticals for birth defects allegedly caused by pregnant woman's use of Bendectin.

Note: Excludes civil verdicts against alleged or convicted criminals.
Sources: Jury Verdict Research; Jury Verdict Review; FORBES.

Where lawyers are prospecting

If juries go along, these hot new tort topics will make plaintiffs' lawyers and their expert witnesses rich.

Breast implants	Hundreds of cases pending against Dow Corning, other manufacturers and physicians, arising from alleged implant leaks and fibrous tissue formation.
Halcion	At least 20 cases pending against Upjohn Co.'s drug alleging behavioral side effects resulting in paranoia, suicide and murder.
Insurance policies	Hundreds of bad faith cases pending against many insurance companies and agents alleging emotional distress after the insured's claim is rejected.
Electromagnetic fields	About a dozen personal injury cases against several utility companies and electrical transmission equipment manufacturers alleging brain damage, cancer and leukemia caused by electric and magnetic fields.
Prozac	An estimated 100 cases pending against Eli Lilly & Co. Supposed adverse effects include suicidal and homicidal behavior.

twin-engine planes are manufactured today because of liability costs to the manufacturer. The perverse consequence: Older planes stay in use longer than they would if prices of new ones weren't so high.

Although impossible to quantify precisely, it's likely that the tort system's indirect costs are at least as high as the direct ones. That would put the annual tort tax at well over $300 billion today—and growing rapidly. Rand's James Kakalik thinks that the American Medical Association's estimate that medical malpractice's indirect costs are over 2½ times direct costs is a fair high-end estimate for the tort system as a whole.

Whatever its precise dimension, the tort tax is now weighing heavily on the ability of American industries to innovate and to compete internationally. At 2.5% of U.S. GNP, the tort system's direct costs (as estimated by Tillinghast for 1987) impose a burden in the U.S. five times that in the U.K., and almost seven times the level in Japan *(see chart, p. 41)*.

There are a few rays of hope. Vice President Dan Quayle is pushing tort reform, targeting such areas as frivolous lawsuits, arbitrary punitive damages, "junk science" in the courtroom (FORBES, *July 8, 1991*). Among Quayle's proposals: Ban contingency fees for expert witnesses, curb punitive damages and adopt the English Rule, whereby losers pay the winners' costs. Last October President George Bush signed an executive order mandating that all government agencies implement Quayle's proposed reforms when litigating. In his State of the Union address late last month, Bush again called for tort reform.

But effective reform remains elusive. Those who oppose it are too powerful and have too much at stake. As of Jan. 22 a loser-pays rule is authorized in most cases the government brings. But this sensible reform is toothless without budget approval from Congress, whose members are unlikely to approve.

Perhaps the only real solution lies with judges and juries. As they begin to appreciate the true magnitude and ramifications of the spiraling tort tax, they will be more likely to throw frivolous lawsuits and venal demands back at the lawyers responsible. ■

His enemies say it's only a matter of time before William Dean Singleton's highly leveraged newspaper empire totally collapses. The wait may be long.

"We're the only one left"

By William P. Barrett

WILLIAM DEAN SINGLETON's first effort at owning a daily newspaper ended badly but memorably. His *Fort Worth Press,* a poorly financed revival facing an entrenched competitor, shut in 1975 after only three months. On the final day, angry reporters hurled beer cans at Singleton as he made a newsroom speech.

"I was 24 years old then," he says, clearly pained by the memory. "I've learned a lot since then."

Among the things Singleton, now 40, has learned is how to finance his acquisitions. Rule number one: Use other people's capital. Rule number two: Don't use all your assets as collateral for a loan to buy another property; that way, one piece of the empire can go down without dooming the whole empire. And never sign personal guarantees for corporate loans. Another important rule: Keep overhead down. Singleton's headquarters staff: just 14 people.

Pam Francis

MediaNews Group's William Dean Singleton
Gets a dreadful word-of-mouth.

With aggressive borrowing and diligent cost-chopping, Singleton—who tends to leave daily operations to his lieutenants while he makes deals—has built quite a business. Revenues of his privately owned parent, Houston-based MediaNews Group, were an estimated $450 million last year. Its 15 dailies in 9 states include the *Denver Post,* the *Houston Post* and monopoly papers in several smaller cities.

Singleton made his first MediaNews acquisition in 1983 when he paid $10 million for the *Gloucester County Times,* in the New Jersey suburbs of Philadelphia. Some $7 million of that came from banks. The rest came from Richard Scudder, a third-generation newspaper owner who had run the now defunct *Newark Evening News.* Now 78, Scudder is still Singleton's 50-50 partner and MediaNews' chairman.

As media values rose during the 1980s, Singleton was often able to entirely finance a new property with a short-term bank loan, later refinanced with longer-term investors. MediaNews' debt and preferred stock is down to around $400 million.

Recently, of course, media values have been falling and cash flows slowing. Singleton's many detractors—he gets a dreadful word-of-mouth within the business, partly because he often furloughs employees—predict his

MediaNews Group holdings at a glance

Entity Lead lender, minority interest *Major properties*	Daily circulation	1991 cash flow*	Debt, preferred stock	Market or liquidation value	Singleton equity
		estimated: $millions			
Consolidated Newspapers Bank of Boston, Toronto Sun Publishing Co *Houston Post, Gloucester County (NJ) Times, Salem (NJ) Sunbeam*	340,000	$10	$120	$105	$0
Garden State Newspapers John Hancock, Media General *Hayward (CA) Review, Alameda (CA) Times-Star, Pleasanton (CA) Tri-Valley Herald, Fremont (CA) Argus, Bristol (CT) Press, Ypsilanti (MI) Press, York (PA) Dispatch, Woodbridge (VA) Potomac News, Las Cruces (NM) Sun-News, Johnstown (PA) Tribune-Democrat*	288,000	32	150	350	60
North Jersey Newspapers Bankers Trust, Media General *North Jersey (NJ) Herald & News, ex-Goodson weeklies*	75,000	5	30	45	5
Denver Newspapers Times Mirror, Media General *Denver Post*	253,000	7	95	50	0
Totals	956,000	54	395	550	65

*Defined as earnings before interest, depreciation and taxes. Doesn't include newspapers sold or closed since January 1991. Note: Singleton has agreement to buy Fairbanks (AK) Daily News-Miner. He also has personal interests in the Pasadena (CA) Star-News and several Utah weeklies.

By grouping his properties in different corporations, Singleton contains many problems. The lack of cross-collateralization helps protect the empire.

debt will eventually drag him under. But they may be disappointed: With one or two exceptions, he was careful not to overpay. FORBES figures that even now, the four operating units into which Singleton has divided MediaNews' properties have more than sufficient cash flow to service the debt, and a combined net worth of $155 million *(see table)*. Singleton's personal share is worth an estimated $65 million. Most of that is in his Garden State Newspapers unit of small newspapers.

Boasts Singleton: "Look who else expanded in the 1980s with highly leveraged acquisitions—Ralph Ingersoll, Robert Maxwell, Tucker Sutherland. We're the only one left."

To his credit, Singleton has been willing to sell as well as buy. Two months ago, for example, he sold a Yakima, Wash. paper for about $65 million—more than double what he paid just five years earlier. And after paying Times Mirror Co. $110 million for the *Dallas Times Herald* in 1986, he sold it within two years to another business partner. Singleton and his bank lenders basically broke even but dodged the bullet: The paper collapsed in December.

"You have to treat your lenders right," says Singleton. By that Singleton means his major institutional lenders—Bank of Boston, Bankers Trust and John Hancock—as distinct from the media companies that have often helped finance his purchases of their properties by taking back his paper. Last year Times Mirror, which sold the *Denver Post* to Singleton in 1987 for $95 million, wrote off most of the $75 million note it took back. Legally, Singleton still owes the money, but image-conscious Times Mirror doesn't want to repossess the *Post*, now locked in a dogfight with E.W. Scripps' *Rocky Mountain News*. So Times Mirror and Singleton are negotiating some form of actual debt relief.

The Toronto Sun Publishing Co. chopped in half the $50 million Singleton owes from buying the *Houston Post* in 1987 for $150 million and turned the rest into preferred stock carrying no dividend. Why? The *Post*, the main asset of Singleton's Consolidated Newspapers, is trailing Hearst Corp.'s dominant *Houston Chronicle* and needs help. Singleton also renegotiated Consolidated's estimated $95 million or so of bank debt, getting lenders to postpone receiving interest on part of the loans. Concedes he: "We built in some cyclicality in the *Post* purchase price, but we overpaid by $50 million." But since he isn't cross-collateralized, even a *Post* collapse wouldn't affect Singleton's other companies.

Singleton does know how to cut a deal. Two years ago his Garden State Newspapers formed North Jersey Newspapers, a partnership with Goodson Newspapers. Singleton contributed dailies in Union City, Elizabeth and Passaic, and Goodson, a dozen weeklies in affluent suburbs.

Fair deal? While the Goodson weeklies thrived, all three Singleton dailies foundered; two were closed. Meanwhile, say insiders, Singleton made a $6 million or so capital call on Goodson, which was stretched from earlier acquisitions. When Goodson couldn't meet the call, Singleton walked away with the weeklies.

While most media companies are still retrenching, Singleton is shouldering ahead. "We're not done buying papers," he says. Indeed, he just agreed to buy the Fairbanks, Alaska daily and has been sighted in Ogden, Utah, checking out that town's *Standard-Examiner*.

Whether Lee makes too much money or Toyota dumps aren't the issues. Is Detroit expendable? That's the issue.

The case for protection

By Jerry Flint

Arguments for protection generally get a chilly reception at FORBES. But Senior Editor Jerry Flint thinks the situation so dangerous at General Motors, Ford and Chrysler that protection may be the only way to save them. Are they worth saving? Flint, who has covered Detroit for 30 years, says yes. Whether or not one agrees, the questions raised are likely to resonate well after this recession ends.

LATE LAST MONTH I sent a note to Robert Stempel, chairman of General Motors, asking: "Is the U.S. auto industry expendable, and what must government do to help?" Pretty soon Stempel was on the phone. "This is the first time I've seen anyone get to the heart of the issue," he said.

What happens if the government doesn't help? Stempel's candor made me shudder: "Well, the market has a neat way of straightening that out. That's why I say, this is not a business for sissies."

General Motors, the largest manufacturing company in the world, capsizing? Unthinkable! But that was the image I thought was in its chairman's mind. Said Stempel: "It's going to be tough, because we don't see a rapid recovery in this marketplace. We do see an impact of the coming regulations [emissions, safety] that will raise vehicle prices, thereby holding some people out of the market longer. We see big-ticket price increases when you add air bags and CFCs [rebuilding air conditioners to eliminate chlorofluorocarbons] and safety—and, and, and. Recovery is going to be slow.

"What it means is, we've got a lot of cutting to do very, very rapidly. And to leave no doubt in your mind: Yeah, I expect to be here, but it's going to be hard work."

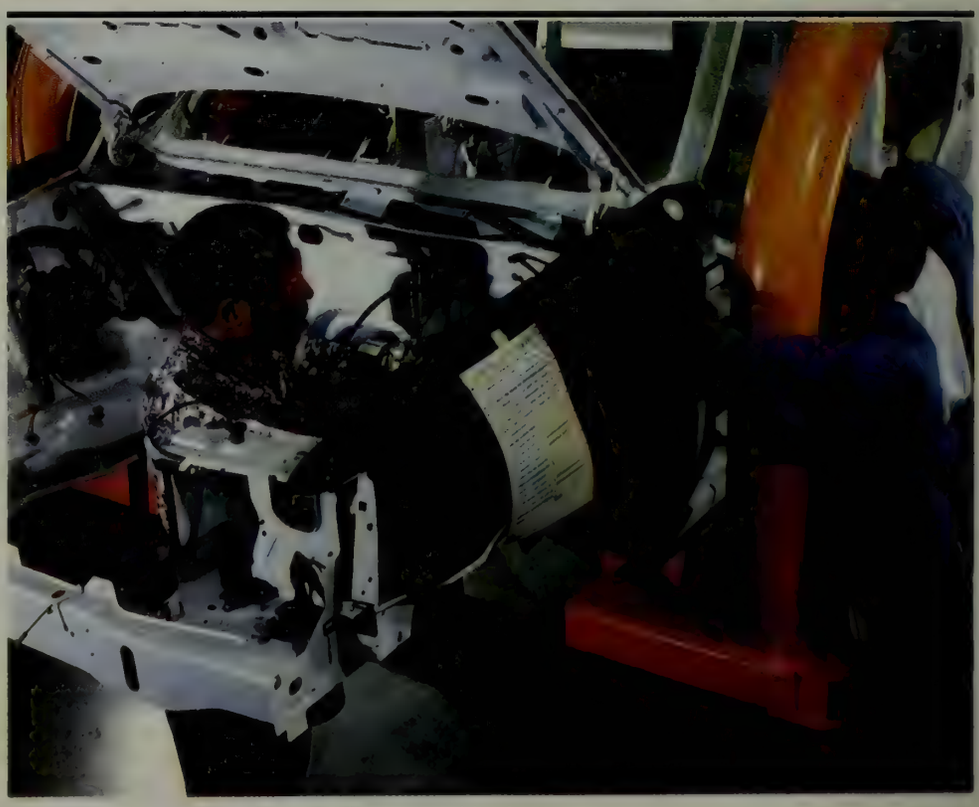
Across Detroit, Lee Iacocca was even glummer. "Could you sustain three years with volume like this? With difficulty," he said. A few more economic downturns, and it could be over for Detroit. We could just fade away, said the Chrysler chairman.

Before dismissing Stempel's and Iacocca's remarks as self-serving, let's look at some rough numbers. GM has been losing $500 million a month on its North American auto operations while making $250 million a month elsewhere—a $3 billion annual operating loss. The company has about $3 billion in the kitty. That's down from $6 billion in 1990, enough to last about a year at the current loss rate.

What happens when the cash runs out? Cash is raised by borrowing and selling stock or parts, as Nash sold Kelvinator, as Chrysler sold its European business a dozen years ago, as GM is trying to sell Allison truck transmission today. Too often, though, this is just part of an irreversible spiral.

What has pushed the American auto industry to the point of no return is the combination of recession on top of a loss of 33% of its business to foreigners. Some more numbers to ponder: Just six years ago U.S. car/truck sales topped 16 million, and 12 million of those were made by the big three. Today total sales are running around 12 million and only 70% are big-three-made, nearly a 4 million loss. Bluntly, current volume isn't enough to support Detroit's cost structure.

Pull out the cars Detroit sells rent-a-car fleets, and the big three are down to 55% or 60% of retail car sales—and dropping. The home team can't even win on its own ground. The Japanese build their new plants in the American farm country, hire sturdy young work-

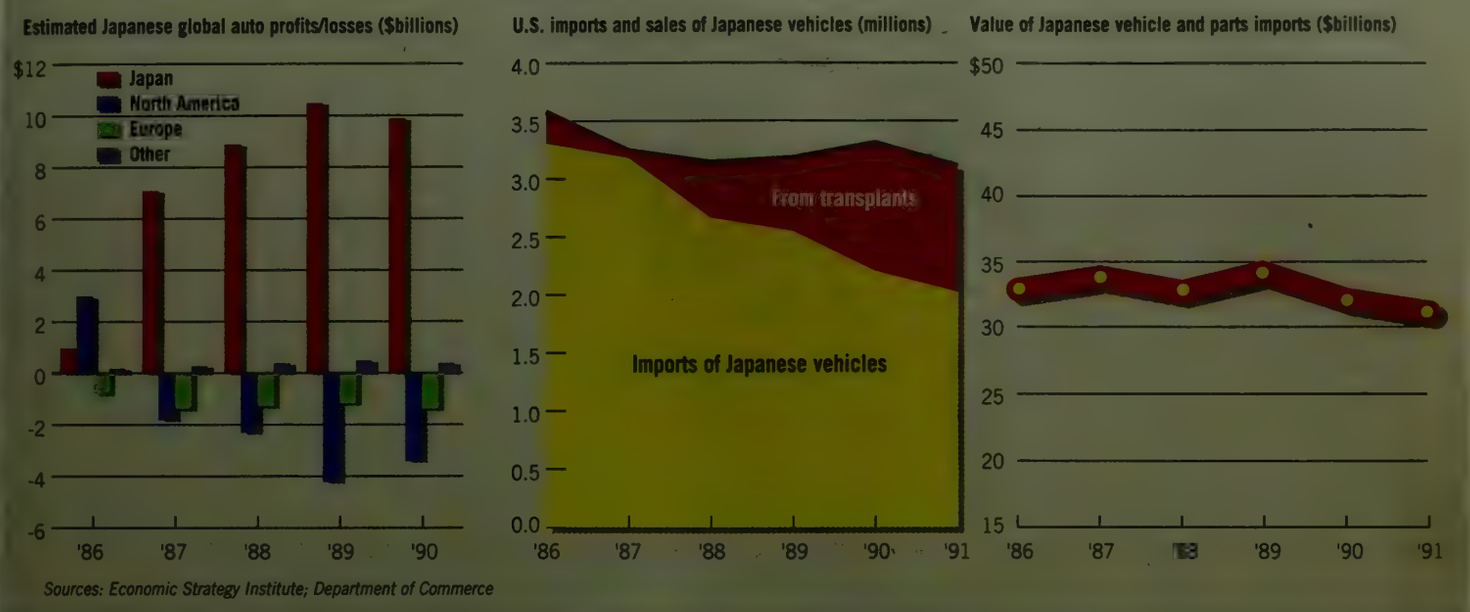


David Cartier

Chrysler workers training in a new Jeep assembly plant

If the industry collapsed, would they ever work again?

The Japanese home market edge and trade advantage



Sources: Economic Strategy Institute; Department of Commerce

Home market profits support Japan's efforts here. Total vehicle exports have declined, yet the dollar total is remarkably stable thanks to parts sent to transplant factories.

ers, have lower medical costs and no pensions to pay, and assemble cars at an estimated $8 to $9 an hour labor cost advantage over the big three.

Talk of the U.S. makers' improving quality and productivity is fine—if there were time. But there may not be time—without protection.

Mention the "P" word and the conversation quickly moves out of focus and into crime and punishment. Doesn't Lee make too much money? Isn't Toyota dumping? Mustn't we solve the health care crisis first? Don't those s.o.b.s deserve it after all the trouble I had with my '86 Detroit iron? Didn't Japan spend 40 years building a wall around its industry?

Books can be written on each of these subjects. But guess what? Our fault, their fault—it doesn't matter anymore. It's down to that one question: Is our automobile industry expendable? Because if Detroit doesn't get help soon, there may not be much of a U.S. auto industry anymore.

"What's wrong with protecting yourself if you are getting the stuffing beat out of you?" growled Lee Iacocca. "In boxing you protect your chin, in football you protect the middle, in basketball you protect the lane. What the hell is wrong with protection? Okay, I'm out of the closet. I guess I want to protect myself."

Would consumers have to pay more if the industry were protected? Sure. Cars seem to cost as much as 25% to 75% more in other places. That's why the carmakers are losing so much money here that their survival is threatened. Even the Japanese are losing money in the U.S. *(see chart)*.

Iacocca agrees that open competition is good for U.S. consumers. "But Japanese consumers get an even bigger break, because they all have jobs."

What's lost if the U.S. auto industry fails? Jobs. The Japanese won't fill the job vacuum. Last year Detroit's big three sold 8.7 million vehicles with 620,000 employees. The Japanese big three, Toyota, Nissan and Honda, sold 2.4 million with 37,000 U.S. employees. That's because most of those 2.4 million came here from Japan, with most of the engineering built in.

With auto capacity still expanding at home, Japan's carmakers could easily move more vehicles to the U.S. if the big three were out of the way. If Detroit struggles on, Japan could increase production in the U.S. American jobs would be lost because cars from transplant factories carry that heavy load of Japanese parts.

So there goes the social safety net. The big three employ 132,000 minority workers, against only 6,000 for Toyota, Nissan and Honda here.

More jobs undoubtedly would be lost in auto parts and related industries—steel (Detroit takes a seventh of the U.S. steel), aluminum (a sixth) and electronics.

"If the big ones capsize, there goes the U.S. pension guarantee fund," said James Womack, co-author of *The Machine that Changed the World*, the authoritative MIT-based auto industry study. Indeed, social costs—unemployment pay, welfare, tax losses—were key in the Chrysler loan-guarantee decision of 1980.

What type of protection would save the industry? Action that would push down Japanese car imports and push up prices. A variety of methods would work—directed import cuts, quotas, dumping charges and even the creation of dockside red tape.

Perhaps my view is too pessimistic. Pent-up demand could blossom in the spring. New product from GM, Ford and Chrysler over the next 18 months might win back American consumers' hearts and minds.

But if business doesn't pick up, and pretty fast? Then policymakers must ask themselves if the U.S. carmakers are expendable. If the answer is no, then protection may be the only way to save them. Said MIT's Womack: "Don't think I'm feeling any joy in thinking of ways to prop up the home team. But the most likely outcome with completely open competition? The home team won't make it."

Now in its fourth month, the UAW's strike against Caterpillar is aimed as much at the struggling U.S. automakers as it is at Cat.

Cat claws back

By Gary Slutsker

RICHARD OWENS is a union man. Since Nov. 7 he has been locked out of his job making gears for tractor transmissions at Caterpillar Inc. in East Peoria, Ill., where he has worked since 1974. With a wife and five children to support, Owens, 36, can't understand why his union—the United Auto Workers—and Cat aren't talking. Said Owens to a recent gathering of business and labor leaders called by Peoria Mayor James Maloof: "We want you to begin talking to each other and continue doing so until an agreement is reached."

The labor war that has divided Peoria for the last three months has broad implications for labor relations throughout the country, but especially in Detroit. It is a struggle about the future of so-called pattern bargaining, still a potent negotiating tactic for the UAW, although it was abandoned long ago by unions in other industries like communications and steel. Under pattern bargaining, a union negotiates a new contract with one company. That contract then becomes the pattern for contracts with that company's competitors—in Cat's case, Deere and Tenneco's J.I. Case.

The UAW first signed a full-fledged pattern agreement with Cat in 1958, and it isn't about to stop now. Next year is labor bargaining time for the big three automakers. The last thing the UAW bosses want is to let the Cat negotiations give the carmakers—which among them employ 475,000 UAW members—an excuse to bolt the pattern. Noting that Cat workers amount to under 2% of total UAW membership, Caterpillar's chief negotiator Jerry Brust says: "The union is not about to let the tail wag the dog."

The fight started Nov. 3, after Cat tried to replace its expired labor contract with one that didn't follow the pattern hammered out with the UAW a month earlier at Deere. The UAW quickly struck two Cat plants employing 2,400 workers. Cat struck back by locking out 5,650 more workers. About half the union work force remains on the job, while Cat managers man the company's struck and locked-out factories. The UAW refuses to bargain as long as Cat refuses to put a pattern agreement on the table.

Seth Perlman/AP/Wide World Photos

UAW members on strike at Cat

"It's an antiquated idea that is no longer realistic in the world of multinational corporations."

Caterpillar and others have tried to break the pattern before, and have paid a heavy price for trying. Cat last tried it in 1982, and suffered a 205-day strike before finally accepting a slightly altered pattern. Fighting the pattern was one reason International Harvester (now Navistar) had to get out of the farm equipment business.

Cat says its construction equipment business doesn't have much in common with Deere. The tractors Deere makes in Moline, Ill. are sold mostly domestically, while Cat sees itself as a U.S.-based exporter, shipping overseas half of what it makes here. Analysts say Cat planned for this strike during most of 1991 and built up comfortable dealer inventories in a soft market. There are no fat profits for the union negotiators to attack. After earning $210 million in 1990, Cat reported a $400 million loss for 1991, on sales of $10 billion.

Worker sentiment may be turning against the union. At a rally held on Super Bowl Sunday in Peoria, loud boos and catcalls greeted the news that featured speaker Bill Casstevens, second in command at UAW headquarters in Detroit, had unexpectedly canceled. "He had no time for the company," shouted one union man. "Now he has no time for the union."

Richard Owens, the locked-out UAW member with five kids, has publicly called on the union to dump pattern bargaining. "It's an antiquated idea that is no longer realistic in the world of multinational corporations," he wrote in a letter to the *Pekin Daily Times.* Adds Kenneth Gschwend, a 25-year veteran Cat union worker on permanent medical disability who serves as mayor of Peoria suburb South Pekin: "This is devastating to the blue-collar worker."

What will Cat do if it fails? "Our UAW-represented employment has gone steadily down for the last decade [from more than 35,000 to less than 16,000 now], and I think the UAW has no illusions that if we were saddled with another pattern agreement, UAW employment would continue to go down," says Cat's Brust. But he knows what he's up against. "It's almost a case where they [the union negotiators] would sacrifice the employees at Caterpillar in order to maintain their pattern."

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Having quietly built Britain's most successful newspaper publishing company, Lord Rothermere acknowledges that he would like to have a go at running an American paper.

The sage of Fleet Street

By Peter Fuhrman

Lord Rothermere
A squire with the common touch.

Mike Abrahams/Network Matrix

FROM HIS DOWDY three-piece woolen suits to his manicured fingertips, the Viscount Rothermere (a.k.a. Vere Harmsworth) looks every inch the patrician Brit. But Rothermere is a squire with the common touch. His gut feel for the cares and ambitions of the broad British middle class have made him perhaps the English-speaking world's most successful newspaperman.

Now 66, Lord Rothermere inherited both his title and the post as chairman of newspaper publisher Daily Mail & General Trust Plc., founded in the 19th century by the legendary Fleet Street press baron Alfred Harmsworth, later Lord Northcliffe. But by the time Rothermere pushed aside his aged father in 1971, the company was a shadow of its old self. Readers and advertisers were departing in droves. "We weren't even making enough to cover depreciation," Rothermere remembers, shaking his head in disbelief.

When Rothermere took over, Lord Beaverbrook's competing *Daily Express* was outselling his *Daily Mail* by 1.7 million copies a day. Rothermere cleaned house: He brought in new editors, shifted the paper to a tabloid format, and livened up the tone of the *Mail*'s news coverage. Today *Express* sales are down to just 1.5 million—200,000 below Rothermere's resurgent *Mail*—and it's unlikely the *Express* will ever regain its lead.

"A good newspaper proprietor," Rothermere says, "should never learn to tolerate a drop in circulation." His main editor, Sir David English, is careful to keep Rothermere's papers in close conversation with their readers. For example, the *Mail* has a strong following among British middle-aged women, and it tailors its news coverage accordingly. When President Bush fainted in Tokyo last month, the *Mail* led with the headline "Barbara's moment of anguish."

In 1982 Rothermere launched a Sunday version of the *Daily Mail*. It now pulls in 2 million readers a week and earned around $30 million in operating income last year. One of the few major papers in the world that breaks even on circulation revenue, the *Mail on Sunday* is the most successful new entry in the British newspaper market in 50 years.

With the *Daily Mail* solidly profitable, Rothermere pulled off a further coup by merging one of his ailing papers with a rival's to form the *Evening Standard*, London's only afternoon newspaper. Now wholly owned by Rothermere, it sells 500,000 copies each weekday.

Extending his energies beyond newspapers, Rothermere backed the launch of and holds most of the equity in Euromoney Plc., the successful financial publisher. He then accumulated a 7% shareholding in the news and information giant Reuters Plc.

Rothermere spent much of his early life in the U.S. and horrified his aristocratic family when he signed up as a humble enlisted man in the British army during World War II. It toughened his hide, and later on he didn't shrink from battling Britain's Luddite-inspired print unions.

Result: By 1987 he shut down his obsolete Fleet Street presses and moved to a modern and highly automated facility; pretax profit margins at the daily and Sunday *Mail* rose from under 3% in 1986, when the unions still called the shots, to 10% today.

The upshot is that Daily Mail & General Trust Plc., 70% owned by Rothermere and various relatives, with the balance traded on the London Stock Exchange, has seen its market capitalization triple since 1986, to $1 billion. Its shares now trade at an alltime high of 61, and probably have higher to go. As the $450 million investment program to further automate printing operations at the company's regional newspapers winds down next year, the flywheel of profits will really begin to whir, Roth-

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Bomb the ban

EUROPE'S state tobacco monopolies are trying one last desperate gesture to regain cigarette market share lost to Philip Morris. In alliance with mainly left-wing politicians in the European Community's Parliament, the tobacco monopolies are supporting moves to ban all forms of cigarette advertising in Western Europe.

The tobacco monopolies of France, Italy and Spain both produce and market cigarettes; revenues flow straight into government coffers. A decade ago they had their domestic markets largely to themselves. But in France, Italy and Spain, Philip Morris' market share (led by Marlboro) has climbed by no less than 12 percentage points since 1980, to 33% today. Across Europe, Philip Morris' sales have doubled, to $3.3 billion, in the last decade, and Marlboro is now Europe's leading brand.

Worried, Europe's tobacco monopolies figure that by banning all tobacco advertising they can cut demand for Philip Morris' smokes while using price to spur demand for their own products. The monopolies' leading brands sell for about half the price of Marlboro.

If, as seems likely, the bill is approved soon by the European Parliament, it will probably be shot down temporarily by a veto from the British and German governments. But as the European Community brings in new members like Sweden and Austria, the power of Britain and Germany to block an advertising ban will vanish.

Lord Rothermere is leading European publishers in fighting the proposed ban. His papers carry very little tobacco advertising, but he figures the ban would be the thin edge of a very big wedge. Indeed, there's already talk about restricting advertising for beer, spirits and certain over-the-counter medications. –P.F.

ermere promises—provided politicians in the European Community don't impose all sorts of foolish controls on advertising *(see box)*.

Could Rothermere successfully run an American paper? That question keeps many minds busy at his company's Kensington headquarters. Rothermere seriously considered buying New York's *Daily News* but let the late Robert Maxwell have the honor. ("The [*Daily News*'] unions," he explains, "were stealing it blind.") He also decided against buying the now defunct *Washington Star*. ("Too little classified advertising.")

Still, Rothermere makes it clear that he would love to try his hand at running a U.S. paper. "The U.S. newspaper industry is now where the British industry was a decade ago, with declining circulation, a lot of old technology and strong union power," Rothermere says. "There must be a break with the old ways, and if it comes we think we could run newspapers successfully in the U.S."

That said, however, Rothermere also acknowledges he may not be running the show for very much longer. Another generation is coming along. His son is 24 and has finished up a degree at North Carolina's Duke University. Rothermere also has a half brother, Esmond, 42 years his junior, his father having fathered a child at age 69.

Rothermere's stern advice to both his son and his half brother is to stir things up inside the company as radically as he has done. "A newspaper should be reborn once in every lifetime," he says. Pausing, he then adds with relish: "Anyone who says there's no future in the newspaper business is dead wrong."

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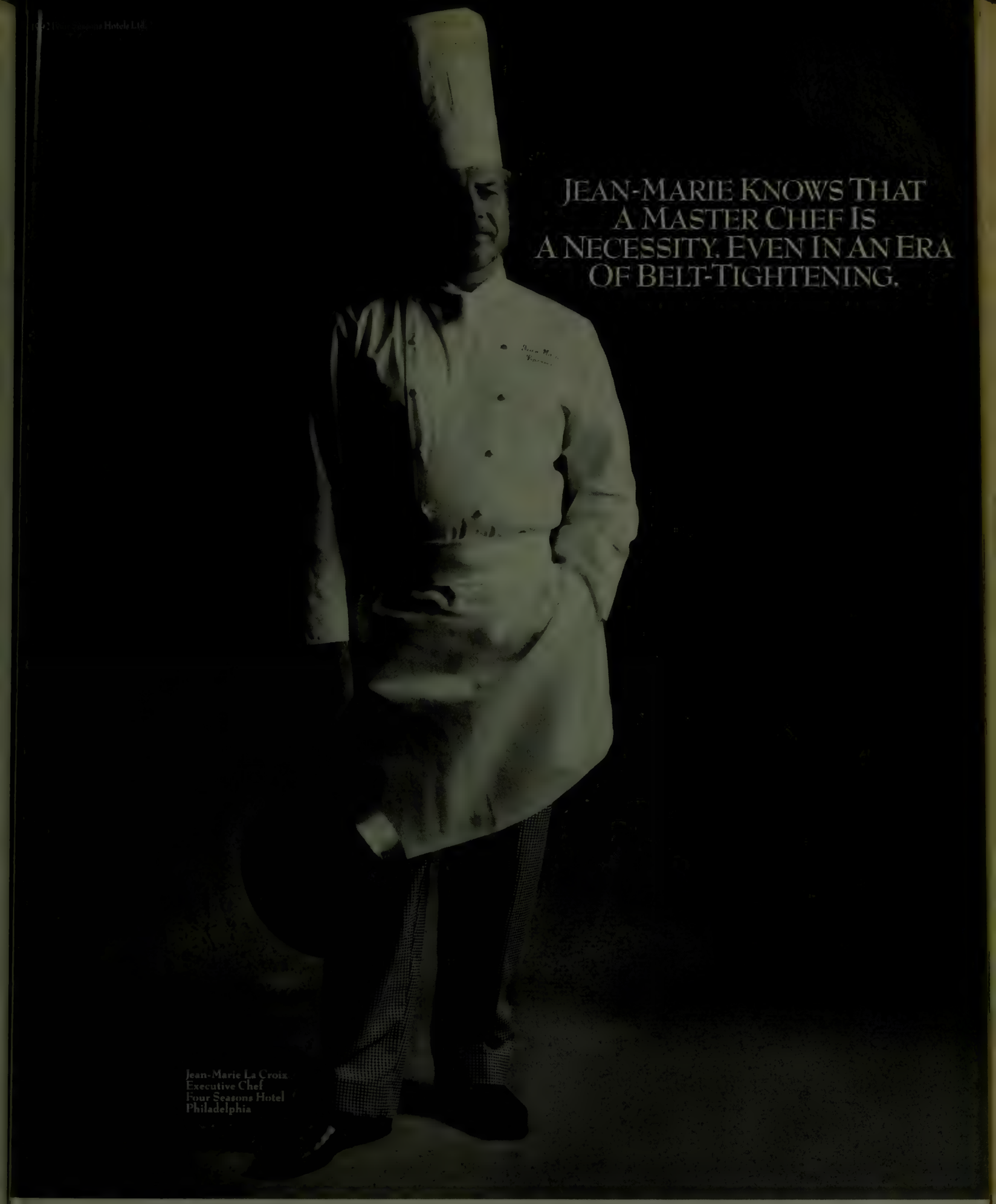

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Having built Smith's Food & Drug Centers into one of the West's best-run supermarket chains, Jeff Smith is now embarking on his most difficult challenge by far.

Mr. Smith goes to Riverside

By John H. Taylor

HAS JEFFREY SMITH finally bitten off more than he can chew?

When it comes to taking risks, few chief executives have been as aggressive as Smith, the 41-year-old chairman of $2.2 billion (sales) Smith's Food & Drug Centers.

Taking over the Salt Lake City-based food chain four years ago, Smith scrapped the blueprint set in place by his late father, who founded the company in 1948 and died in 1984. Out went his father's strategy of building only 42,000-square-foot supermarkets, featuring mostly food items. Smith now builds giant 75,000-square-foot stores, where shoppers can get everything from concert tickets to fax service and full-service banking. In its home base of Utah, Smith's even sells ski-lift passes and bus tokens.

Nor was Smith content to stay in Salt Lake City and Las Vegas, where his stores have market shares of 40% and 35%, respectively. Beginning in 1987, Jeffrey and his younger brother Richard, the company's president, expanded into Tucson, Reno and Phoenix. All told, Smith's Food & Drug now has 100 stores in seven states—Utah, Arizona, Nevada, New Mexico, Idaho, Texas and Wyoming. Over the last five years, the company's average return on equity of 17.7% and average earnings-per-share growth of 20% rank among the best in the supermarket industry.

Now comes Smith's biggest test. By the end of the decade, he plans to spend $1.4 billion to open 120 stores in California. The first 60 stores will be built in southern California—9, in fact, were opened late last year. The company began to raise money for this foray last summer, with a $170 million secondary stock offering. It plans to fund the rest of the expansion through a combination of operating cash flow, debt and sale/leasebacks of new sites.

Southern California will stretch Smith's abilities as they've never been stretched before. Five chains already have over 100 stores each in the region, and operating costs are 20% higher than in other areas where Smith's now has stores. Says Gary Giblen, a PaineWebber analyst who has followed Smith's Food & Drug's progress over the years: "This is a bet-the-ranch proposition."

In defense of their strategy, Smith's executives point out that weekly supermarket sales in southern California average $12 per square foot, 60% more than other areas where Smith's operates. The higher operating costs, in other words, should be offset by higher revenues.

Smith's has a hidden weapon: a relatively underleveraged balance sheet. By contrast, major southern California competitors Vons Cos. (309 stores) and Ralph's Grocery Co. (158) are heavily leveraged. Ralph's, which went through an ill-fated leveraged buyout by the Campeau Corp. in 1988, had nearly $900 million in debt and negative net worth in October, though the company is said to be considering a public offering. Despite raising $122 million in a secondary offering last May, Vons has a debt-to-equity ratio of 1.7 to 1, compared with Smith's 0.8 to 1.

"We can attack aggressively on price," says Alan Hoefer, a Smith's board member, "and they won't be able to respond."

To succeed with fewer stores than its big competitors, Smith's will have to attract customers from as far away

Smith's Food & Drug Centers Chief Executive Jeffrey Smith (left) and his brother Richard, company president **Betting the ranch that they can conquer California.**

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as 5 miles from each store—no simple trick in a region notorious for traffic congestion. To build its customer base, Smith's has been sending 8-minute promotional videos to between 20,000 and 40,000 people within 3 miles of each of its first nine California stores, and is bombarding area residents with mailers.

"The key," says Robert Bolinder, Smith's chief financial officer, who does the talking for the press-shy Jeff Smith, "is getting people into these stores the first time. Once they see all the merchandise, the large parking areas and the 25 checkout counters, we think they'll be back."

Smith's executives say their initial nine stores, which are scattered from Lancaster to Oxnard and Riverside, are averaging more than $550,000 a week in sales—not bad for new stores, though still short of the $600,000 or so a store needs to break even. But Wall Street seems convinced that Smith's will succeed. Trading recently at 37 on the New York Stock Exchange, Smith's Food & Drug's shares are at a lofty 23 times estimated 1991 earnings. Among major grocery store chains, only Salisbury, N.C.-based Food Lion trades at a higher earnings multiple.

Scott Barrow

A sushi bar in Smith's new supermarket in Yorba Linda, Calif.

Smith's shoppers can get everything from concert tickets to ski-lift passes.

Is Smith's southern California campaign a risk? Of course. But Smith's Food & Drug has prospered precisely because its young management team has consistently been willing to take intelligent risks.

"Everywhere we've gone—Tucson, Reno, Phoenix—people said we were taking a big risk," says Bolinder. "But it's always worked. In our industry you're either growing, or you're dying."

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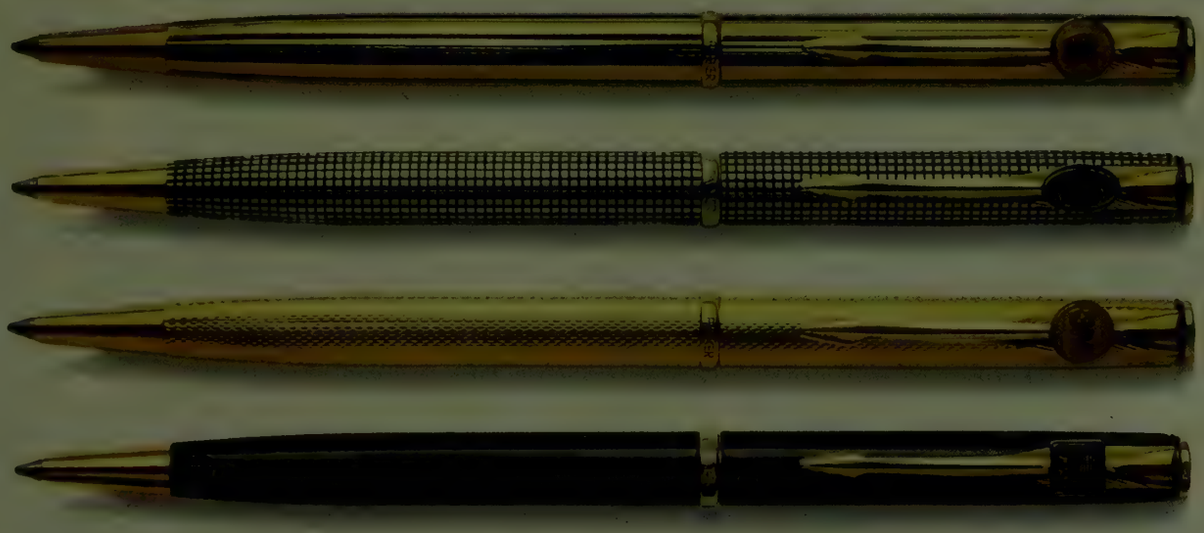

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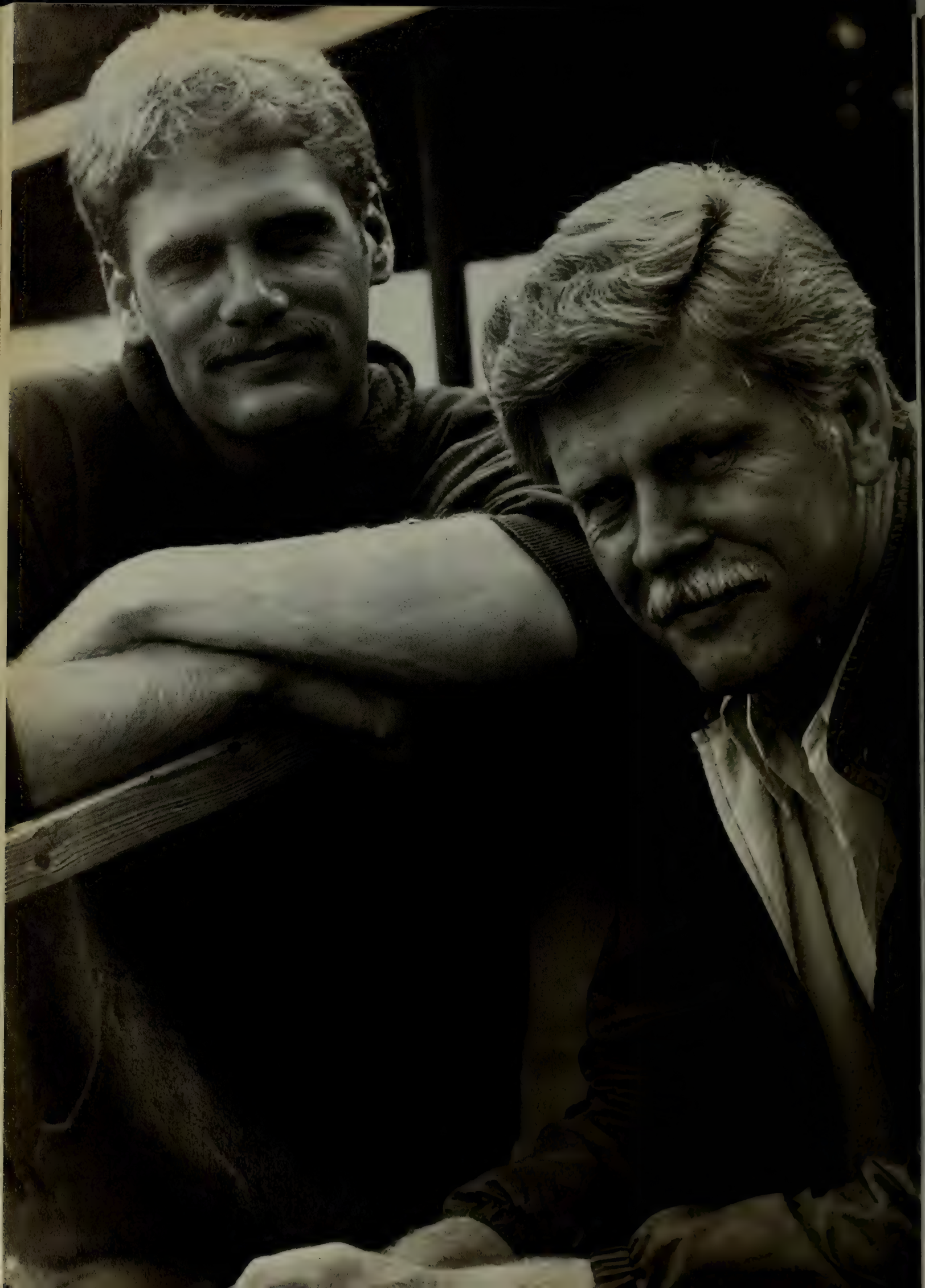

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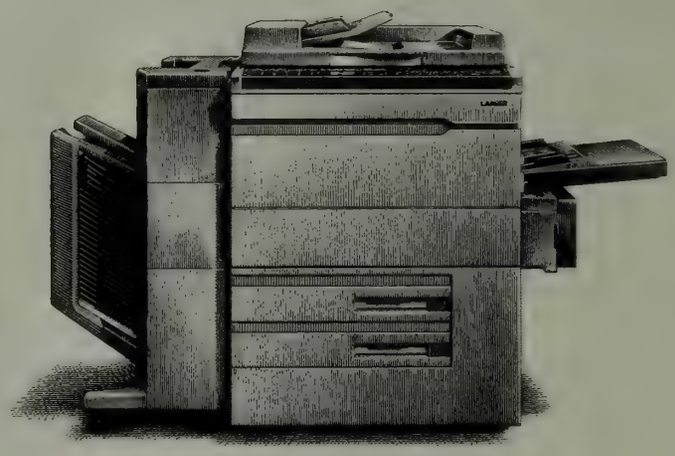

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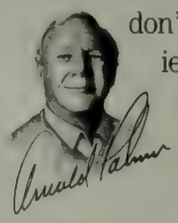

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HARRIS

LANIER RESPONDS

Copying Systems Division

Thanks to the new transportation bill, the private sector has more incentive than ever to rebuild and operate many of the country's highways, bridges and tunnels.

Toll call

By Janet Novack

FOR ALL THE talk that privately financed and operated toll roads and bridges might restore the nation's infrastructure without further draining the public coffers, there has been very little action from the private sector. The problem: The expected payback on most projects is too modest to attract private funding.

The $151 billion (over six years) transportation bill passed by Congress late last year may have solved this problem. During last-minute House-Senate negotiations on the bill, Senator Daniel Patrick Moynihan (D–N.Y.) pushed through provisions (favored by the Bush Administration) that allow government money to be made available for toll projects developed by the private sector. Stephen Lockwood, an associate administrator of the Federal Highway Administration, thinks the new law's provisions could radically increase the number of private projects that make financial sense.

The key change in the new law is to allow private developers to collect tolls on roads, bridges and tunnels that receive federal highway funds (exception: the federal interstate highway system). To see how this might work, consider a bridge or road that was built decades back with public money and is now in disrepair. The state is probably too broke to carry out the repairs. So the state leases the bridge or road to a private developer, who rebuilds it in exchange for the right to charge tolls for, say, ten years.

To make the return attractive to the developer, the Moynihan provisions allow the state to use federal highway funds to provide capital (in the form of a grant or loan) for a portion of the project. The law limits the use of these funds to 50% of the cost of a road or 80% of the cost of a bridge or tunnel, with the remaining capital supplied by the private developer. It's a win-win situation. The public authorities can leverage their highway funds to build more projects, and private developers can earn a reasonable return on a smaller commitment of their capital.

Says Alexander Lüdi of Union Bank of Switzerland, approvingly: "The new law will help significantly to bring forward private financing for this market, which has been a bit stuck."

Traffic at a crawl **The new federal transportation bill may finally get the private toll-road business moving.**

Superstock

Steven Steckler, a Price Waterhouse consultant who heads the Privatization Council's transportation task force, thinks that if states encourage entrepreneurs to rebuild decaying bridges and roads and recoup their investment by collecting tolls, the number of feasible private toll projects could increase tenfold.

If he's right, the country's big roadbuilding and engineering firms—including Bechtel, Brown & Root, Fluor, ICF Kaiser Engineers and Kasler Corp.—stand to benefit handsomely. Drivers stand to pay more tolls; today tolls are charged on just 4,732 miles of U.S. roads, bridges and tunnels. Total collected: about $2.5 billion a year.

Hurdles, however, remain. For example, the American Automobile Association, long a critic of toll roads, protests that its members have already paid for roads through gasoline taxes and shouldn't have to pay tolls, too.

Nor is it clear what rates of return the politicians will allow the private developers to earn on their investments. Warns Carl Williams, the California Department of Transportation's expert on privatization: "The first time that one of these grants [to a private toll project builder] is misused or misapplied, the law allowing them is going to be wiped out."

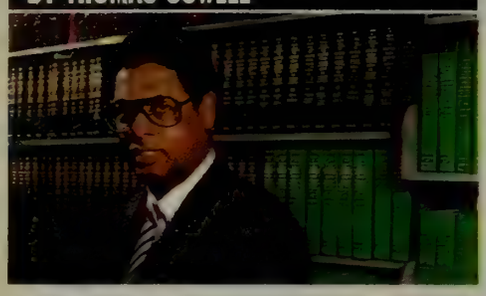
Still, the new transportation law's goal of encouraging the private sector to take an active role in rebuilding and operating the country's roads, tunnels and bridges is a promising step forward.

Harvard University urban policy Professor Jose Gomez-Ibanez believes that the private sector can bring more innovation and flexibility to road design and construction. Examples of innovation can be found in four private road proposals approved by California a little over a year ago. Three were projects the state hadn't even considered building, and all include new ideas, such as a cars-only road to reduce construction costs and charging higher tolls at rush hour to reduce congestion.

When ideology conflicts with facts and figures these days, ideology usually wins.

Don't confuse us with the numbers

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

ONE OF THE MOST exasperating types of individuals is someone who refuses to make estimates—especially since most of what we know consists of estimates. If we restricted ourselves to discussing only what is known with certainty and precision, our days would be filled with long hours of silence.

Ask some people for an estimate, and they act as if they are going to be sued for their life's savings if they don't hit the nail on the head. They have a large vocabulary of words and phrases with which to cop out.

"It all depends," they say.

Of course it all depends. Could anyone possibly have doubted that it all depends?

If someone from Mars asked you how tall human beings are on Earth, you could similarly answer: "It all depends." It depends on age, sex, race, nutrition and probably other things as well. But if you said that the majority of adults on Earth fall in the range from five to seven feet in height, you would be conveying some reliable information instead of pettifoggery.

Ask for an estimate in time, and you may well get an answer beginning, "If everything goes according to plan . . ." or "Other things being equal. . . ."

Is there any documented case in history where everything went according to plan? Have other things ever been equal? Then why waste everyone's time with anything so hypothetical?

Anyone who runs a business, chooses a mate or just drives down the street knows that everything we do involves risk. Estimating those risks is a task inseparable from living.

Nothing is so reckless as waiting for certainty. That is a game we are sure to lose. In ordinary, day-to-day life, we realize this—or at least we act as if we do, which is what counts. It is only in loftier realms—intellectual activity, the law or public policy making—that

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we abandon common sense and start talking in abstractions that ignore mundane realities.

Courts of law in recent times have been death on all sorts of systems of estimating probabilities, especially when those estimates have conflicted with the zeitgeist.

No industry is so dependent on statistical probabilities as the insurance. Yet courts have struck down both insurance and annuity systems that either charge different premiums or pay different amounts annually to men and women. No one can deny that women live longer, creating all sorts of problems for unisex insurance or annuities, for employers who provide such benefits to their employees and ultimately for those job applicants whose costs to employers have been artificially inflated by court decisions.

Yet a U.S. Supreme Court decision has loftily insisted that "we focus on fairness to individuals"—not groups. But the very reason for the existence of insurance is that we have no reliable knowledge about which individuals will die when, whose car will be stolen when or whose house will burst into flames when. The only reliable information we have consists of statistical estimates for groups.

Estimates of probabilities have to be made in everything from banking to college admissions. But let these estimates conflict with the zeitgeist and the zeitgeist wins every time, whether among politicians, judges or the intelligentsia.

No one denies that rates of vandalism, fire and other destruction of property values are higher in some parts of town than in others. But let a bank decide that the risks in some places are too high to gamble on loans based on vulnerable property there and they are guilty of the ideological crime of "red-lining." Let auto insurance rates be higher in those neighborhoods where cars are more likely to be stolen, or to have traffic accidents, and the same rejection of estimates will occur.

Estimates in conflict with the zeitgeist are condemned as "stereotypes"—regardless of what the evidence supports.

This hostility to estimates that bring unwelcome news extends also to mental tests, whether used in college admissions or in employment or promotions decisions. These methods of estimating future performance are not judged by whether they turn out to have better or worse predictions than alternative methods, but by whether they meet the preconceptions of the Equal Employment Opportunity Commission, judges, politicians or intellectuals.

Those opposed to these tests are seldom required to produce any evidence meeting the same standards as the evidence of those supporting the tests. The EEOC, for example, has come up with a formula that makes any test suspect when any group does not pass at least 80% as often as some other group. No one requires them to produce any evidence whatever to support this magic number.

The broader claim that mental tests of various sorts predict a lower future performance for various low-scoring groups than they in fact have is a claim flatly contradicted by evidence for a wide range of tests, a wide range of groups, and for both American society and countries overseas.

Still, these tests provide only estimates—which is enough to get them rejected in favor of dogmas. ■

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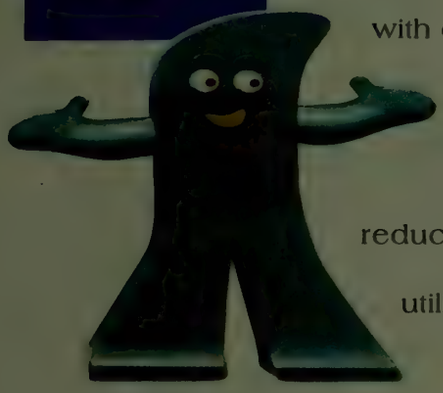

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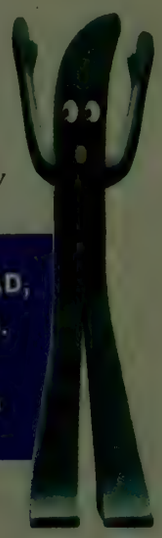

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He taught ballroom dancing and owned some Arthur Murray franchises. She ran a gym in New Orleans. Together they founded the Jenny Craig chain of diet centers, which made them demibillionaires.

Fat city

By Phyllis Berman with Amy Feldman

ON A MONDAY morning two weeks after they took their company public, Sidney and Genevieve Craig toured the floor of the New York Stock Exchange. It was a visit they had worked toward for decades. A former gym owner, Jenny Craig was trim and excited and dressed head to toe in black Chanel. Her husband, a former ballroom dance teacher, was slim and perfectly coiffed. "My dream was always to own a New York Stock Exchange company," gushed Sid Craig as he watched the screen, where shares of Jenny Craig, Inc., the couple's chain of weight-loss centers, climbed from 26⅞ to 29¼ in the space of a half hour—a move that added $39 million to the couple's paper worth, bringing it to $478 million.

The Craigs are in fat city because millions of Americans will go to great expense to lose weight. (For a related story, see page 140.) At Jenny Craig weight-loss centers, customers sign up at an initial cost of $79 or more and purchase Jenny Craig-brand low-calorie food at an additional cost of $52 or more per week. In essence, the Craigs are in the specialty food business. They have a captive customer for four months, on average. Jenny Craig dieters also attend the company's weekly nutritional counseling sessions.

The average Jenny Craig dieter is a woman with some 30 pounds to lose. At a rate of 1½ pounds to 2 pounds per week (the usual goal), that woman would shell out at least $920 to Jenny Craig.

With something like 50 million American dieters to cater to, Jenny Craig, Inc. has been growing like a weed. Sid Craig promises to add 90 new diet clinics this year alone to his 653 units. With that kind of growth, he thinks he can keep revenues climbing 15% to 20% per year. The cost of opening a center is around $125,000. Unlike its larger competitors—notably Nutri/System (with 1,800 centers) and Diet Center (with 1,600 centers)—Jenny Craig does little franchising.

Rocky Thies/SABA

Demibillionaires Sid and Jenny Craig
They've grown fat off America's obsession with being thin.

Wall Street loves the diet center concept and has priced Jenny Craig accordingly. Revenues and profits last year were $412 million and $31 million ($1.29 a share), respectively. Market cap: $808 million.

The Craigs' success came about relatively rapidly, but not overnight. Sid Craig's father never held a full-time job; his mother owned a tiny dress shop. As a child in Alhambra, Calif. in the 1930s, Sid, who is now 59, tap-danced in some of the *Our Gang* comedies. As a student at Fresno State College in the mid-1950s he taught ballroom dancing in the evenings at an Arthur Murray dance studio, and went on to acquire five Arthur Murray franchises.

Jenny Craig, also 59, grew up in New Orleans, the youngest of six children of a boat captain who carried crews and supplies to oil rigs in the Gulf of Mexico. She married a local powerboat racer and began raising a family.

In 1970 Sid Craig, then 36, sold his Arthur Murray franchises and bought a half interest in a chain of troubled diet centers called Body Contour. Jenny Craig, meanwhile, had been running a gym in New Orleans. In 1970 she got a job at Body Contour, where she met the company's boss, Sid Craig. A few years later they were divorced from their respective spouses. They were married in 1979.

After building Body Contour into a $35-million-sales-a-year business, the Craigs and their partner sold out to Nutri/System in 1982. The Craigs collected $3.5 million, signed a two-year noncompete agreement covering the U.S. weight-loss market and left for Australia, where they opened 100 diet centers under the name Jenny Craig. After the noncompete agreement expired, they began building Jenny Craig centers in the U.S.

By 1987 the company had opened 46 U.S. outlets, and the Craigs were ready to take money out of the business. But how?

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*EPA estimates. For comparison. 17 city, 23 highway.

They tried taking the company public, but withdrew the offering as the market weakened.

Enter Michael Tennenbaum, vice chairman of investment banking at Bear, Stearns. Tennenbaum got TA Associates, an investment and venture capital firm, New York Life Insurance Co. and his partners at Bear, Stearns, among others, to put $50 million into Jenny Craig. Two banks lent the company an additional $50 million. The investors got 16.5% on their money, and they and the banks received warrants for 25% of the company's equity, priced at 19 cents a share.

Did the company need the money to expand? Not at all. In the recap, the Craigs and their children picked up a $108 million dividend.

The really big score was made last October. With the initial public offering market hot again, Jenny Craig issued 3.5 million shares to the public at $21 a share, or a total of $73.5 million, which was used to repay part of the bank debt and money put up by Tennenbaum's investor group. The Craigs sold another 1.65 million shares to the public for $35 million; the banks and investors also sold 550,000 shares for $11.5 million. That left the Craigs with 59% of the company, the banks and investors with 20%, and the public with the rest.

Having made their fortune, can the Craigs continue to expand it? Doing so will prove difficult.

Dieting techniques go in and out of fashion. For example, in the 1970s over-the-counter diet pills were all the rage, but in the 1980s many consumers switched to meal replacements and diet centers. Thanks to the growth of chains like Jenny Craig, Nutri/System and Diet Center, the U.S. is beginning to be blanketed by weight-loss clinics, according to John La Rosa of Marketdata Enterprises, a Valley Stream, N.Y.-based market research firm. This comes while the number of dieters is leveling off.

"I always knew I'd own a limousine someday," says Sid Craig, who as a young man used to write his goals on his bathroom mirror every morning.

There are other clouds on the horizon. The Federal Trade Commission wants to put new restrictions on diet companies' advertising, and the plaintiff lawyers are beginning to target the industry. There are already several court cases pending against Jenny Craig and one of its competitors alleging gall-bladder damage as a result of their weight-loss programs.

Meanwhile, the Craigs, Tennenbaum and TA Associates together own a half interest in Glen Ivy Holdings, Inc., a big time-share resort developer that is under criminal investigation by California authorities for fraudulent sales and phoney bookkeeping.

But whatever happens to Glen Ivy, don't worry about the Craigs. They worked hard, got lucky and are sitting pretty with $143 million already taken out of Jenny Craig. Recalling that as a young man he used to write his goals on his bathroom mirror every morning (a frequent entry: "Become the owner of the company"), Sid Craig says: "I always knew I'd own a limousine someday." Money for limousines and much else is already safely tucked away.

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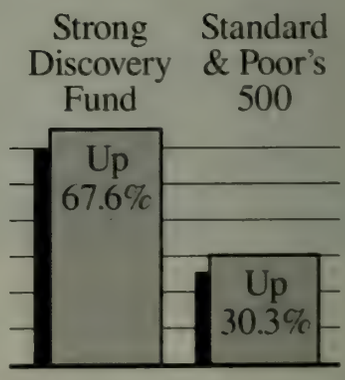

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January 21, 1992

THE CIT GROUP

Dear CIT Colleague

~~To all employees:~~

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Our profits rose 11.9% to a record-setting $150.1 million and our finance receivables grew 4.8% to over $11.1 billion.

1991 represented our fourth consecutive year of growth, an accomplishment we take great pride in because it will allow us to make even more money available to American businesses in 1992.

By providing capital for companies with assets we're not only doing good business, we're helping take the crunch out of credit.

Thanks to all of you for the great effort this past year.

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For two generations family-owned Calumet Farm was a jewel among Kentucky horse farms. It took only nine years for the next two generations to destroy it.

Lots of horses but no horse sense

By Carol M. Cropper

IN THE GLITTERING WORLD of Thoroughbred racing, Calumet Farm sparkled like Baccarat. No other farm could match its claim to eight Kentucky Derby winners and two takers (Whirlaway and Citation) of the Triple Crown. Nor could many farms match the millions it brought home from the track.

That was ten years ago, when the 850-acre farm had no debt, and assets worth about $21 million. But Calumet's glory days are over. Last July the Lexington, Ky.-based farm filed for Chapter 11 bankruptcy, with debts of $127 million. Meanwhile, its assets were worth, at best, $60 million.

What happened? The story of Calumet's disastrous passage from frugal, able hands to free-spending, overreaching ones begins in 1982, when founder William Monroe Wright's daughter-in-law died. At that time a family trust, which included control of the farm and some $40 million worth of securities and oil and gas leases, passed into the hands of Bertha Cochran Wright, the founder's granddaughter-in-law, and then to her four children.

To head up the farm, the heirs selected J.T. Lundy, a former tenant farmer who had married Bertha's 16-year-old daughter, Lucille (Cindy) Wright, in 1962. Lundy had long coveted Calumet; those who know him recall his endless criticism of the way the farm was being run. Once in charge, he quickly tapped the family's other holdings, borrowing an estimated $10 million to refurbish the farm. Lundy added a sophisticated equine clinic and a swimming pool for horses—extravagances that other farms deemed unnecessary. Amenities for the humans included new tennis courts, a swimming pool and a leased jet. Lundy began jaunting to Australia, South Africa and Japan.

Ill prepared to look after their inheritance themselves, the heirs let Lundy have his way. "I was not brought into this world to be business-wise, and I never have been," says Bertha Wright, now 72. "We went along with whatever J.T. said. It's called blind trust."

Raising Thoroughbred horses has always been a business for the rich, not a business where one can expect to get rich. Most old-line horse farmers operate conservatively, buying champion stallions in syndication

Jacqueline Dwyer/Aphrodite Illustrated

Calumet Farm's former president, J.T. Lundy
First he coveted the farm, then he ran it into the ground.

Bill Luster/Sports Illustrated

RIGHT:
Alydar, the last of the great stallions bred at Calumet
A trip to his shed could fetch as much as $250,000.

Jacqueline Dunogan/Sports Illustrated

LEFT:
Calumet Farm
An unprecedented eight Kentucky Derby winners, and two takers of the Triple Crown.

with as many as 40 other investors. While the stallion's valuable breeding rights are diluted, so is the risk.

Then, in the late Seventies, oil-rich Arabs jumped into this genteel market, driving up Thoroughbred prices 16% a year between 1978 and 1983. Rising prices, plus an aversion to high taxes during those inflationary times, attracted to horse breeding lawyers, stockbrokers and dentists, who became instant members of the horsey set by buying into tax-advantaged limited partnerships. Liquidity from the partnerships drove prices even higher.

Mistaking this bubble for a genuine change in the breeding business, Lundy piled more debt onto Calumet. In 1986 he borrowed $20 million from the Mutual Benefit Life Insurance Co. in New Jersey. The next month he paid $6.5 million, along with breeding rights worth perhaps $2.5 million, for a half interest in Mogambo, the 1985 winner of the Champagne Stakes at Belmont. It was a terrible investment: Mogambo never fetched big breeding fees and was sold last year for $550,000. Interests in other unproven stallions were bought for as much as $25 million.

Meanwhile, Lundy, who once told his wife's grandmother he'd be rich when she died, was pulling out money with both hands. During his nine-year tenure, Lundy paid himself as much as $12 million in commissions and breeding rights.

Lyle Robey, Calumet's former secretary/treasurer, defends Lundy, saying there would have been no problems if prices had stayed high. "I think he would look like a genius," Robey effuses. But in 1986 the horse boom bubble began to rupture. The tax reform act of that year eliminated most of the tax benefits to limited partnership investors and sharply cut the inflated prices that horses commanded. As the value of his collateral shrank, Lundy began breeding the farm's stallions 90 or 100 times a year—almost twice as often as owners traditionally do. This helped generate more cash, but it also drove down the stallions' long-term value as the market was flooded with lots of their foals.

By this time Lundy was on a debt treadmill. In 1988 and 1989 he borrowed $44.8 million and continued to buy horses as losses mounted.

Lundy was going bust, but he was going in style. In 1981, the last full year before Lundy took control, Calumet's operating expenses had run to just $2.5 million, against revenues of $4 million. In 1990 alone, Lundy ran up $45 million in operating expenses, against revenues of just $13 million. Among the correspondence left behind when he resigned was a letter from Christie's offering to sell two paintings by Miró and Picasso for a total estimated at between $4.8 million and $6.2 million. (The auction house says it was told Lundy controlled the paintings through an option he apparently never exercised.) Word of Lundy's newfound refinement left one prominent Lexington horseman chuckling. "J.T.'s not a real Picasso-type guy. He had a Coke machine in his house."

Finally, last spring, Lundy's game began to fall apart. Banks began complaining to the Wrights about the mounting debt. By April Lundy was out. Now separated from his wife, he's running a little horse farm of his own in a neighboring county. Lundy did not return FORBES' calls.

Meanwhile, his mother-in-law and benefactress, Bertha Wright, has moved out of her family's 14-room white-columned mansion and is living in a two-bedroom apartment in Lexington. An auction on the entire farm is planned for sometime next month. Likely price: in the range of $15 million to $25 million.

In the end, sentiment—and a pack of lawsuits—may be all that's left of this once great farm. One morning last November Calumet's 125 stallions, broodmares and yearlings were led across mist-shrouded fields toward the auction block at Keeneland racetrack next door. Dozens of Calumet grooms and trainers, soon to be unemployed after decades of service, came out before dawn to witness the end of this majestic racing legacy. Bertha Wright, who still lived in the big house, declined to watch. "I was afraid I might cry," she says. ■

Taking up whe

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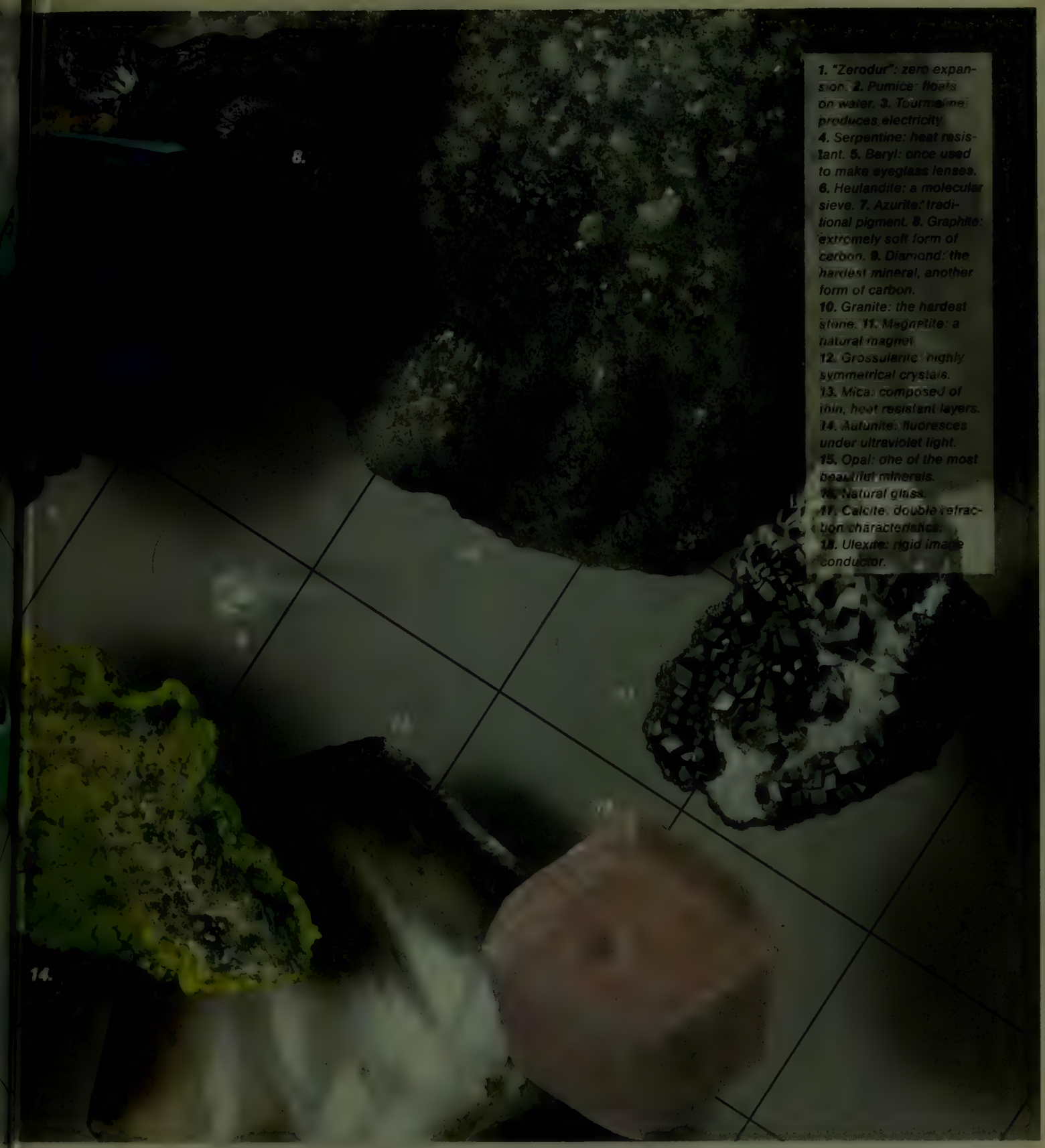

1. "Zerodur": zero expansion. 2. Pumice: floats on water. 3. Tourmaline: produces electricity. 4. Serpentine: heat resistant. 5. Beryl: once used to make eyeglass lenses. 6. Heulandite: a molecular sieve. 7. Azurite: traditional pigment. 8. Graphite: extremely soft form of carbon. 9. Diamond: the hardest mineral, another form of carbon. 10. Granite: the hardest stone. 11. Magnetite: a natural magnet. 12. Grossularite: highly symmetrical crystals. 13. Mica: composed of thin, heat resistant layers. 14. Autunite: fluoresces under ultraviolet light. 15. Opal: one of the most beautiful minerals. 16. Natural glass. 17. Calcite: double refraction characteristics. 18. Ulexite: rigid image conductor.

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Tom Reed thinks his profitable little genetic testing lab can continue to prosper by focusing on service and leaving the R&D to others. A big customer agrees, but Wall Street isn't so sure.

Testing times

By Fleming Meeks

FOR THOSE of an entrepreneurial bent, good ideas can turn up almost anywhere. Consider Thomas Reed, a former stockbroker and money manager who founded Santa Fe, N.M.-based Vivigen, Inc., the country's largest prenatal testing lab.

A veteran of some 20 startups—from radio stations in Hawaii to computer software—Reed met up with a geneticist in 1981 who was looking to change careers and become a money manager. In the course of talking to the scientist, Reed learned that prenatal genetic testing—analysis of amniotic fluid to pinpoint fetal defects—was mostly done by university teaching hospitals and small doctor-owned labs. More important, he learned that the labs weren't very efficient. Typically, it took them three weeks to produce results for anxious pregnant women. Prices? Pretty much what the labs felt like charging, sometimes as much as $600 per test.

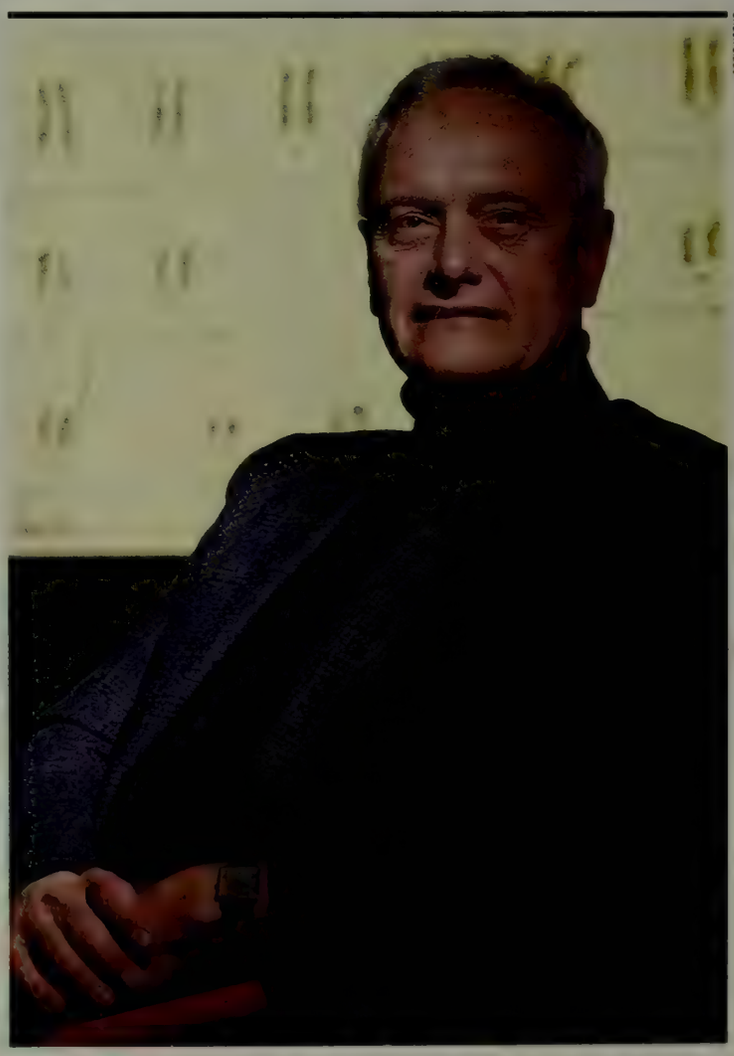
Observing that the cost of entry to the business was low—genetic testing technology was available off the shelf—Reed put up $100,000 of his own cash and raised another $500,000 from people who had invested with him in the past. In 1982, its first year, fledgling Vivigen did $60,000 worth of testing. The following year Reed took advantage of the hot stock market and sold 26% of the company to the public for $2.1 million—a dizzy 136 times revenues.

His timing was perfect. Increasingly, women over 35—the highest-risk group for fetal abnormalities like Down's syndrome—were having babies. And ultrasound machines, which allow doctors to monitor the position of the fetus as they use a long needle to draw out the amniotic fluid, were making amniocentesis a much safer procedure. Vivigen priced its services 20% or more below those of competing labs. And by trimming the lag time between a series of complex procedures, it was able to produce test results in just seven days.

Cost-conscious health maintenance organizations, like the Harvard Community Health Plan, quickly began specifying Vivigen as their preferred testing lab. Even the university labs sent their overflow business to Vivigen. Through much of the Eighties, with virtually no marketing efforts, Vivigen's revenues grew at 50% a year; profits doubled annually. In 1989 profits hit $1.6 million (64 cents a share) on sales of $9.1 million, and Vivigen's 2.5 million American Stock Exchange-listed shares hit a high of 27½ (offering price: $3.25).

So far, a happy little tale. But last year Vivigen earned $1.2 million (47 cents a share) on revenues of $11.4 million; the stock recently traded at 14. (Reed owns 18% of the company, worth about $7 million.)

Vivigen's problem: a well-financed research-oriented competitor that is pushing itself into the market. Framingham, Mass.-based IG Laboratories, which is 56%-owned by Genzyme Corp. (FORBES, *May 27, 1991*), has invested $3.3 million in research on new prenatal testing technologies over the past two years. Among them: gene probes—synthetic strands of DNA, radioactively marked, which attach to mutated genes—that identify Down's syndrome and several other abnormalities in just 48 hours. Genzyme has already pumped $4 million



Chuck Slade

Vivigen Chairman Thomas Reed **"If I'm wrong, I'm wrong."**

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(U.S. Dollars in Millions)

Issuer	Description of Transaction	Global Dollar Amount
Ford Motor Company	Convertible Preferred Stock	$2,300.0
Teléfonos de México, S.A. de C.V.*	Global Offering of Ordinary Shares and American Depositary Shares	2,173.2
RJR Nabisco Holdings Corp.	Common Stock	1,293.8
MBNA Corporation	Initial Public Offering of Common Stock	947.8
Grupo Televisa, S.A. de C.V.	Global Offering of Rule 144A American Depositary Shares, Global Depositary Shares, and Series L Shares	862.5
Telecom Corporation of New Zealand Limited*	Global Offering of Ordinary Shares and American Depositary Shares	817.9
Elf Enterprise Petroleum Ltd.	Euroexchangeable Offering; Joint Lead	742.0
BT	International Offering of Ordinary Shares and American Depositary Shares	714.7
The Reader's Digest Association, Inc.	Class A Non-Voting Common Stock	665.0
EXEL Limited	Initial Public Offering of Ordinary Shares	630.5
Elsevier NV†	Block Trade	616.0
The Goodyear Tire & Rubber Company	Common Stock	600.0
Société Nationale Elf Aquitaine*	Global Offering of Ordinary Shares and American Depositary Shares	464.6
Colgate-Palmolive Company	Common Stock	460.0
PNC Financial Corp	Common Stock	441.2
Banc One Corporation	Common Stock	370.9
Safeway, Inc.	Common Stock	358.8
Destec Energy, Inc.	Initial Public Offering of Common Stock	345.0
Irish Life plc	Global Offering of Ordinary Shares	327.3
LVMH Moët Hennessy Louis Vuitton†	Block Trade	304.0
AMR Corporation	Common Stock	301.9
Freeport-McMoRan Inc.	Convertible Subordinated Notes	296.5
Santa Fe Pacific Corporation	Common Stock	290.6
LVMH Moët Hennessy Louis Vuitton†	Block Trade	280.0
MGIC Investment Corporation	Initial Public Offering of Common Stock	276.0
Novo Nordisk A/S	Managed Rights Offering	264.0
ShopKo Stores, Inc.	Initial Public Offering of Common Stock	258.8
Rogers Cantel Mobile Communications Inc.*	Global Initial Public Offering of Class B Subordinated Voting Stock	255.0
Texas Utilities Company	Common Stock	250.1
The Bank of New York Company, Inc.	Convertible Subordinated Debentures	250.0
The Chubb Corporation	Euroconvertible Offering; Joint Lead	250.0
First Union Corporation	Common Stock	242.6
Owens-Corning Fiberglas Corporation	Simultaneous Rule 144A Offering and Euroconvertible Offering of Convertible Junior Subordinated Debentures	230.0
National Power PLC & PowerGen plc	International Privatization Offering of Rule 144A American Depositary Shares	209.0
Smith's Food & Drug Centers, Inc.	Class B Common Stock	201.0
Carnival Cruise Lines, Inc.	Class A Common Stock	194.1
The Kroger Co.	Rule 144A Offering of Convertible Subordinated Debentures	170.0
Credito Italiano S.p.A.	Global Offering of Ordinary Shares	162.0
Mellon Bank Corporation	Common Stock	153.8
Knight-Ridder, Inc.	Common Stock	152.3

Issuer	Description of Transaction	Global Dollar Amount
CIBA-GEIGY AG	International Offering of Bonds with Warrants	150.0
American Greetings Corporation	Class A Common Stock	140.4
Tate & Lyle plc	International Offering of Bonds with Warrants	121.0
Household International, Inc.	Common Stock	117.5
BWIP Holding, Inc.	Initial Public Offering of Class A Common Stock	116.0
Airborne Freight Corporation	Convertible Subordinated Debentures	115.0
Télévision Française 1†	Block Trade	112.0
Dell Computer Corporation	Common Stock	111.4
Eastman Kodak Company	Rule 144A Offering of Zero Coupon Exchangeable Senior Debentures	109.5
McDermott International, Inc.	Common Stock	106.1
Best Buy Co., Inc.	Common Stock	103.5
Royal Appliance Mfg. Co.	Initial Public Offering of Common Stock	100.7
Source Perrier†	Block Trade	100.0
Republic of Austria	Stock Indexed Growth Notes	100.0
Affymax N.V.	Initial Public Offering of Common Stock	92.0
AutoZone, Inc.	Initial Public Offering of Common Stock	86.0
Health Management Associates, Inc.	Class A Common Stock	85.2
PictureTel Corporation	Common Stock	82.8
Filene's Basement Corp.	Common Stock	82.7
Manufacturers Hanover Corporation	Block Offering	82.0
Morrison Knudsen Corporation	Common Stock	81.1
Filene's Basement Corp.	Initial Public Offering of Common Stock	80.0
PT Indocement Tunggal Prakarsa	Euroconvertible Offering	75.0
United Technologies Corporation	Zero Coupon Pharmaceutical Exchange Notes	75.0
Advanced Telecommunications Corporation	Common Stock	73.2
William Low & Company PLC†	Block Trade	71.0
Atlantic Energy, Inc.	Common Stock	69.0
Wellfleet Communications, Inc.	Initial Public Offering of Common Stock	68.4
Technology Solutions Company	Initial Public Offering of Common Stock	65.3
Lechters	Euroconvertible Offering	65.0
Boston Edison Company	Common Stock	61.8
Read-Rite Corporation	Initial Public Offering of Common Stock	58.6
Chili's, Inc.	Common Stock	57.1
Sybase, Inc.	Common Stock	57.1
Heilig-Meyers Company	Common Stock	55.2
Refuge Group PLC†	Block Trade	52.0
Cytel Corporation	Initial Public Offering of Common Stock	52.0
General Physics Corporation	Initial Public Offering of Common Stock	52.0
PictureTel Corporation	Initial Public Offering of Common Stock	47.7
Tecnol Medical Products, Inc.	Initial Public Offering of Common Stock	47.4
Health Management Associates, Inc.	Initial Public Offering of Class A Common Stock	46.9
Lechters	Common Stock	46.7
Komag, Incorporated	Common Stock	44.9
The Penn Traffic Company	Common Stock	43.3
Wisconsin Central Transportation Corporation	Initial Public Offering of Common Stock	39.8
Soft Warehouse, Inc.	Convertible Preferred Stock	28.0
Smithfield Foods, Inc.	Common Stock	26.6
Mobile Telecommunication Technologies Corp.	Common Stock	24.5
British Bio-technology Group plc	Preferred Ordinary Shares	19.7
IWC Resources Corporation	Common Stock	17.0
The Business Depot Ltd.	Convertible Preferred Stock	13.6
Cencom of Alabama, L.P.	Partnership Units	11.0
	TOTAL	**$23,862.6**

New York London Tokyo
Boston Chicago Dallas Frankfurt
Hong Kong Houston Los Angeles
Memphis Miami Montreal
Paris Philadelphia San Francisco
Singapore Sydney Toronto Zurich

Goldman Sachs

* Goldman Sachs served as global coordinator.
† These block transactions were completed on behalf of third parties.

STEADY ON.

After we acquired Great Northern Nekoosa,
our plan was to pay down debt as quickly as possible. In part,
by divesting the company of non-strategic assets.

A recent case in point is the sale of an 80% interest in
two papermaking facilities and timberlands in Maine for
$300 million. It's money we'll use to further reduce debt. Which, in
turn, will bring our total debt reduction to $1.5 billion.

And considering we did this in less than two years,
we think it's an accomplishment worth noting.

We'll continue with our plan to strategically manage debt.
And we'll continue to focus on our core businesses.
Strengthening them. Adding value to them.

While affirming to our shareholders that
we are steadily on course.

Georgia-Pacific

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into IG and will sink another $34 million into the company early this year.

Has Vivigen, which spends no money on research and development and relies on licensing technology from others, missed the boat? Reed insists not. "Public money throughout the world is pouring into these technologies," he says. His strategy: Continue to focus on service—which has made Vivigen far and away the most respected lab in the business—and license whatever new technologies come along.

It's a risky strategy, hitching your future to other parties' technologies, and Reed knows it. "If I'm wrong, I'm wrong," he shrugs when a reporter reminds him that Wall Street seems to favor IG Laboratories' strategy of developing proprietary testing products. But health care giant Baxter International doesn't think Reed is wrong. Last year Baxter's $775 million (revenues) Caremark subsidiary, which operates 170 health care centers around the country, began opening specialized centers for women and picked Vivigen to do all of its prenatal testing. This means Vivigen, which has never fielded its own sales force, now has 40 Caremark salespeople selling its services to obstetricians in all 50 states.

Chuck Slade

Vivigen's prenatal test lab

Efficient techniques cut result time by two-thirds.

What's next for Vivigen? Applying genetic testing techniques to cancer diagnosis. This could be a huge market. Not only can genetic techniques be applied to analyzing the chromosomal changes caused by cancer, but they can also be used to assess the effectiveness of treatments like chemotherapy. (As with prenatal testing, Vivigen uses off-the-shelf technology. Genetic tests for a number of cancers are now available from cancer research groups.) That means that cancer patients may end up being tested as many as five times over the course of treatment. Baxter expects to complete an agreement to send all of its genetic testing work for cancer to Vivigen by early spring.

NEW AUDI TAKES AIM AT LEXUS AND ACURA.

In order to stand out in the highly competitive American car market, Audi has invested millions of dollars in redesigning and rethinking every automobile in its line-up, starting with the all-new Audi 100 V-6. At a base price of only $29,900,* it's clear Audi is not content to let Lexus and Acura corner the market. Indeed, Audi believes the new 100 will break from the pack, being the first new automobile in its class to offer German engineering with Japanese pricing. With front-wheel drive, driver's side air bag, and ABS standard on every Audi 100, Japanese car buyers may find the new Audi too good a value to ignore.

—KARL TREUTLER, DETROIT

*Manufacturer's suggested retail price, excluding taxes, license, freight, dealer charges and options. Price subject to change. 100 S shown with $470 optional metallic paint.

What do you get when you combine a generous health plan, a fear of drug testing and some friendly union officers? One heck of a business opportunity.

Health care loco-motives

By James R. Norman

IF YOU, like the rest of us, are mystified about why health care costs keep going through the roof in defiance of gravity, Warren Coscia's resignation letter may give you some insight. A year ago, he quit as executive vice president of Philadelphia-based Matrix Health Management Inc., a small, private, but apparently very lucrative, mental health and substance abuse referral business. As he left, he wrote a scathing letter to his brother Jack, one of Matrix's controlling partners. In it, Warren lambasted Matrix as a "continuing criminal enterprise."

Matrix, he warned, was preying on railroad workers and their generous health insurance through "bribery of union officials . . . fee-splitting with hospitals . . . [and] paying patients to enter treatment."

Matrix dismisses Coscia's letter as the ravings of a madman. "None of it's true," insists brother Jack. Matrix's lawyer refused further comment. Warren won't talk, either.

But interviews with union leaders, rail managers and insurers confirm many of the points in Coscia's letter, including the delivery of fax machines and other gadgets to union officers and the payment by Matrix of thousands of dollars for union mailings that could have influenced union elections. Among other things, Coscia's letter claims Matrix helped defeat Geoffrey Zeh, who was president of the Brotherhood of Maintenance of Way Employes and opposed union endorsement of Matrix.

Coscia's charges against his old firm added fuel to a raft of state and federal investigations into possible union corruption and health care fraud in the overbuilt and patient-hungry psychiatric care industry. In particular, the Texas attorney general has filed suit against Psychiatric Institutes of America, a unit of National Medical Enterprises, alleging referral kickbacks and other abuses. Until recently Matrix had a referral deal with PIA's Sarasota, Fla. hospital.

Ed Hille/Matrix

Matrix Health Management's Philadelphia office

Referral service or conduit for union payoffs?

Matrix relies mainly on outside physicians and operates out of a house in Philadelphia. It was founded by ex-Amtrak employee counselor Louis Butler in the late 1980s as a "pro-labor" alternative to company substance abuse programs. It offered free drug tests, with the implied assurance that any participating railworker testing positive could be hospitalized as a mental patient—at a cost several times that of drug treatment—rather than have drug use on his record and thus be subject to random follow-up tests. Matrix apparently earns its money from referral fees from high-priced psychiatric facilities.

To railroad workers concerned about job security, Matrix came along at the right time. Unions feared the railroads would use drug tests as a pretext to fire workers. This was especially feared at Conrail, which has canned 500 workers for substance abuse since the mid-1980s, as it cut its payroll by a third, to 25,000.

So Conrail and Amtrak units of the BMWE, Brotherhood of Locomotive Engineers and Brotherhood of Railroad Signalmen referred hundreds of workers to Matrix, which quickly garnered the lion's share of railroad drug referrals. As Matrix channeled workers to substance abuse and psychiatric facilities, the railroad health plan run by Travelers Corp. was hit for millions of dollars in claims—many of which have been disputed.

Around 1988 Matrix began mass screening of track workers for emotional "stress." That could double the income of laid-off seasonal workers by adding disability payments to their unemployment benefits.

Altogether, Matrix helped hospitalize hundreds of railworkers at fees of sometimes more than $1,500 a day, of which a sizable sum was apparently rebated to Matrix. Travelers won't discuss the problem, citing a federal investigation.

But sources say Travelers has disputed several million dollars in claims from just one of many Matrix-linked psychiatric hospitals: suburban Philadelphia's Northwestern Institute. Northwestern now says it has ended its affiliation with Matrix.

Luckily, planned changes in the rail health plan could crack down on such abuse. So Matrix may be looking elsewhere for referrals. A prime target: federal employees with rich health plans—and a fear of drug tests. ■

Russell Fraser has transformed sleepy Fitch Investors Service into a credit ratings burr under the saddles of Standard & Poor's and Moody's.

Ratings shootout

By Toddi Gutner

A VERY LONG time ago, the Fitch Bond Book was the bible for bond traders and analysts. But the world passed it by, and three years ago Fitch Investors Service was teetering on the brink of bankruptcy, a tiny 47-employee firm dwarfed by Moody's and Standard & Poor's. "We had customers for two reasons," recalls Russell Fraser, now chairman and chief executive. "We were cheap and we rated too high."

Not anymore. Fraser, 50, is a former credit analyst whose fondness for cowboy boots and other Western garb is exceeded only by his zeal to win. In 1989 he paid $1 million and convinced a friend, financier Robert Van Kampen, to put up another $10 million to buy the firm from the successors of Francis Emory Fitch.

Wasting no time, Fraser cut all but 16 employees, moved into splashy new headquarters overlooking New York Harbor and raided S&P and Moody's for new talent—staffing up to 145. Four top S&P and Moody's analysts came over, adding clients like BankAmerica, Primerica and the governments of Connecticut and Massachusetts to Fitch's roster.

Like its larger competitors, Fitch makes its money by evaluating and rating new debt issues. Analysts first grill the issuer's top executives on company operations and then study financial documents to reach a rating. Fitch charges a negotiated flat annual fee or 1½ to 2 basis points per issue (1 basis point is 0.01% of yield).

About 95% of Fitch's revenues come from rating fees paid by issuers, the rest from publishing ratings summaries and research reports.

As a former client himself—he spent nine years at Citicorp's Ambac Indemnity unit, a municipal bond insurer—Fraser never felt he was getting the right kind of service from the bigger rating agencies. He could not receive timely ratings or reach analysts to ask questions. So he ordered Fitch's switchboard to be staffed 24 hours a day, put home phone numbers on all the employees' business cards and launched the publication of research reports. Fitch now churns out about 60 reports a month.

Geoffrey Biddle/DOT

Fitch Chairman Russell Fraser
Bucking the ratings game.

Going on the road, Fraser quizzed issuers, investors and investment bankers about what they wanted. One result: an electronic database that updates defaults and delinquencies of specific asset-backed securities on a weekly basis. Previously, that kind of information was available only in a quarterly S&P printed report. And Fitch plans to roll out a new rating product later this month.

More important, Fraser toughened Fitch's rating standards to reinforce the perception that the firm is beholden to the credit markets, not issuers. Fitch was the first rating agency, for instance, to take Chrysler Corp. out of investment grade last year, moving it to BB+ from BBB. S&P and Moody's followed suit one month later.

Fraser has also doubled the rating fee his firm charges. Regular clients, for instance, pay between $75,000 and $200,000 for an unlimited number of issues per year. The more complex and frequent the issue, the higher the fee. Even with such increases, business is booming. Fitch broke even in August, six months ahead of schedule. From revenues of $200,000 a month, Fitch is now pulling in about $2 million monthly.

Van Kampen clearly likes what he sees. From family trusts, he's put in another $30 million in working capital and now owns 69% of the firm. A friend of Van Kampen's and 24 employees own 24%. Fraser's stake is 7%. Fitch plans to distribute another 20% of the shares to all employees once certain profit goals are met.

Fitch's fortunes have also been enhanced by a recent Securities & Exchange Commission ruling that restricts a mutual fund from purchasing a company's commercial paper unless the company has top commercial paper ratings from two agencies. (The old rules specified only that fund managers be confident that securities were "high quality.") That has brought Fitch 15 to 20 new clients.

Fitch's aggressive moves have spurred S&P to develop an electronic service to update defaults and delinquencies. In general Fitch has stirred things up in the hitherto staid ratings industry. "S&P and Moody's have become more innovative and service oriented," says Richard Ciccarone, a bond analyst at Kemper Securities Group. "They call you back quicker and get out more in the field to visit clients."

Fitch may still be smaller than S&P and Moody's, but, thanks to Russell Fraser, momentum is on its side. ■

For five centuries Germany's Thurn und Taxis empire has survived wars, revolutions, inflation and nationalizations. Its greatest challenge may well be Princess Gloria.

Dumbing it away

By Richard C. Morais

BAVARIA'S 31-year-old Princess Gloria von Thurn und Taxis wants blood. The lively widow of the eccentric billionaire Prince Johannes recently filed criminal charges against her former top management, alleging "suspicion of systematic fraud."

This Gothic soap opera starts with the late Prince Johannes von Thurn und Taxis. His family invented the post office in 1490 and shrewdly retained and expanded its fortune through centuries of nationalizations, revolutions and world wars. In the late 1970s the prince inherited some 69,000 acres of forest in Germany, the largest individual holding in Europe. There was the Thurn und Taxis bank; a bit of industry; a Brazilian ranch; some commercial real estate.

Villard/Sipa

Michael Langer/Visum

Princess Gloria von Thurn und Taxis
Her punk image is out; power suits are in.

But as with many aristocrats, the prince's liquid income was far less than his assets suggested. Between 1978 and 1987, according to documents obtained by FORBES, his worldwide holdings earned, on average, a paltry $5.2 million a year. His lifestyle of yachts, castles and boar hunts devoured between $6 million and $12 million a year.

Prince Johannes had another problem. He was a well-known nightcrawler who enjoyed manly company. But the family inheritance mandated that he pass the fortune to one male heir. Prince Johannes needed a wife.

In 1980 the prince picked up a bubbly blonde at a Munich cafe. This was Gloria, a distant relative and a member of the impoverished but noble von Schönburg-Glauchau family. They married shortly after at the prince's castle, St. Emmeram. She was 20 and wore the diamond tiara of Marie Antoinette. He was 54.

Gloria produced a male heir and two daughters but kept up her image as "Princess TNT." She often appeared in pink punk hairdos; danced on nightclub tables; barked like a dog on talk shows.

"Gloria and I have similar roots," the prince once told a reporter. "My family traces its origins back to Genghis Khan, hers to Attila the Hun."

The 1983 birth of the couple's son, Prince Albert, presented his aging father with another problem requiring urgent attention. No satisfactory legal structure was set up to keep the estate going until his son was of age and could assume responsibility. It was time for modern financial and legal management at St. Emmeram.

In 1987 Prince Johannes tapped Helge Petersen to become his top manager. Petersen, 46, was an icy-eyed graduate of Harvard's business school who had been a partner at McKinsey & Co. Joining Petersen were financial men Eberhard Crain, recruited from chemical giant Hoechst, and Rolf Levedag, formerly of the Deutsche Bank and Swiss Bank Corp. in Germany. Baron Franz Freiherr Riederer von Paar, a forester who had loyally served the prince, became Petersen's number two man. An in-house lawyer, Manfred Heiler, became head of real estate and farming.

Petersen recalls the financial mess he found on looking into the prince's affairs: "There was an acute crisis and we had to stop the bleeding. It was like a plane nose-diving. Before you could figure out the niceties of strategy, you had to pull the lever back."

It was the Thurn und Taxis bank (assets, $630 million) and a galvanized metals manufacturer, Doduco Group, that were hemorrhaging. Petersen took control of Doduco, closed plants and introduced profit centers to turn it around. To prop up the bank, Petersen decided to buy a stake in the Philadelphia-based retail broker Butcher & Co. for $18 million. Butcher, it was reasoned, would scout for U.S. deals and would bring in new clients.

To tackle the issue of higher returns, Petersen and team first needed some decent financial information. "It was like the Middle Ages when we arrived," says Eberhard Crain. "The prince never knew how much he was worth. He thought he had about $3 billion. When we evaluated it there was just $1.3 billion in corporate assets. The prince was very disappointed we came up with such a low figure."

With help from Arthur Andersen, Crain installed an accounting system that produced a monthly report. The data confirmed the managers' suspicions that there was less to Prince Johannes' net worth than met his eye. The managers found, for example, that the forestry division, 30% of the

prince's total assets, earned at best a 1.4% return when assets were assigned fair market values rather than historic book values dating from 1915.

Petersen and co. began searching for higher returns. Between 1987 and 1989 they sold off some $145 million worth of Thurn und Taxis forests and farmland. Over the same period debt doubled to $301 million. Where did the money go? About 80% was reinvested in commercial real estate in Germany, the U.S. and Canada.

No major decision was made without the prince's express approval. Whether on his yacht or in a New York hotel suite, the prince was faxed the minutes of every management meeting. "He would sign off," says Petersen, "and send them back."

By the end of the 1980s the losses had stopped and, according to the in-house financial reports, profits of $7.5 million and $6.4 million were reported in 1988 and 1989 respectively—modest but better than what had been earned previously. But trouble was brewing.

At the end of 1989 Petersen's other assignment—organizing a structure that would keep the empire growing until young Prince Albert could take control—came to a head. Petersen proposed a family trust. A supervisory board would oversee Petersen and his management; executives' contracts could be terminated by the board; Prince Albert could dissolve everything when he was of age.

In November 1989 there was a meeting on the draft of the trust. Prince Johannes, say sources, openly wondered whether it was necessary for his wife, Princess Gloria, to have a seat on the supervisory board. The meeting was then adjourned.

Andreas Bohlcher

Top manager Helge Petersen, now at Wasserstein Perella

"It was like a plane nose-diving."

If her husband's musings upset the princess, she kept quiet. "She was used to taking insults from him," says a witness. Guests at St. Emmeram recall the prince's humiliating treatment of his wife. If she ventured an opinion on a serious subject, Prince Johannes dismissed her with an aristocratic flick of his hand. Nor did Johannes want Gloria in any way involved with his business, claim the executives.

As 1989 drew to a close, Eberhard Crain sent out a 120-page 1990 budget. An acquisition of a sawmill in November, however, prompted him to recall the 1990 budget so he could include the recent acquisition. Only Princess Gloria was unable to return the first draft, claiming she had lost the key to her safe.

A bomb went off. Early in 1990 a German business publication printed the intimate details of Crain's early, unrevised 1990 budget. "Mismanagement and intrigues," screeched the publication. The article painted Helge Petersen as a power-hungry executive who wanted to seize control after the prince's death. Much was made of the increased debt. The article left no doubt that Prince Johannes had been duped by Petersen.

The article shocked the prince. Within weeks, he turned on the managers he had been backing. He became suspicious, stopped deals in their tracks, refused to consummate Petersen's proposed family trust. Suddenly reversing years of behavior, he turned over much of his decision making to his wife.

Patrick LaBanca

Eberhard Crain installed the reporting system

"Prince Johannes never knew how much he was worth."

Within six months Petersen and Crain were bought out of their contracts. Levedag refused a low-ball offer and was fired. Baron Riederer retired a few months later. Only Heiler, the lawyer, managed to stay in the family's good graces—for a while.

And then, in December 1990, Prince Johannes died after a second heart transplant, years of alcohol abuse finally taking its toll.

A year after she had almost been frozen out of all decision making, Princess

Gloria was in control of the $1.3 billion empire. She is being advised by a revolving door of accountants, consultants and lawyers, each of whom takes out a chunk of the estate in fees. But her control is not complete: Without a family trust, she is now required to have all major financial decisions approved by an orphan's court.

In short, in its 502nd year, the Thurn und Taxis fortune finds itself mired in a legal and financial mess. "It could only have happened because the Prince was much sicker than we realized and therefore easily influenced by his wife," says Baron Riederer. Says Petersen, who now runs Wasserstein Perella & Co.'s Frankfurt office: "I think his [Johannes'] paranoia at the end came from his ill health. He was losing control and he fell back on ingrained aristocratic instincts: All these bourgeois people take advantage of us."

Patrick LaBanca

The forester Franz Freiherr Riederer von Paar
"The prince was much sicker than we realized."

With her husband dead, Princess Gloria decided to escalate the dispute with his former managers—they had, after all, made some bum investments. Butcher & Co. turned out to be a costly mistake; investments in U.S. commercial real estate in the late 1980s don't look so smart today.

In hindsight these were poor investment decisions, but in Princess Gloria's mind they were evidence that the managers had been crooks. Last September the same publication that had mysteriously obtained and published the Thurn und Taxis budget reported that unnamed "accountants" had discovered that Petersen and team had used their financial reporting system to "systematically" and fraudulently manipulate Prince Johannes' accounts to pay themselves big bonuses. This despite the fact that on Oct. 5, 1990 Arthur Andersen & Co. produced a detailed opinion to the prince giving his information system high marks.

Enough was enough. Last September, after 18 months of silence, Petersen and the other former managers hit back with a flurry of lawsuits against Gloria and against publications that served as her mouthpiece. The publications were forced to print lengthy rebuttals written by the managers. The courts also slapped a muzzle on Princess Gloria, threatening to fine her $315,000 if she repeats unsubstantiated gossip. The managers are also suing her for defamation of character. Levedag is suing the estate for wrongful dismissal.

Gloria retaliated by filing criminal charges against the principal managers in October. A decision on whether the charges warrant a trial should be made imminently.

Who were the magazine's unnamed "accountants" that had charged Petersen and co. with fraud? In court it was disclosed that these accusations came from the unpublished notes of one Dr. Salzmann. Who he? Salzmann was previously the outside accountant for the Thurn und Taxis bank but had been fired by the bank's supervisory board—Prince Johannes, Petersen and team—which claimed that Salzmann had failed to properly identify tens of millions of dollars in bad loans.

Andreas Böttcher

Banker Rolf Levedag
"It's a nightmare," he says of the fight with the princess.

Poor little Gloria. Long the German press' darling, she has lately become its favorite goat. The respected *Wirtschafts Woche* recently implied that her true objective is a reallocation of assets from the family fortune, which her son inherits, to the late prince's modest personal fortune, of which she has a share.

All in all, a Gothic tragedy. The once magic Thurn und Taxis name continues its downward spiral. "A large fortune," the late Prince Johannes once said, "you can't drink away, whore away or eat away. You can only dumb it away." His young widow seems to be well on the road to dumbing it away. ■

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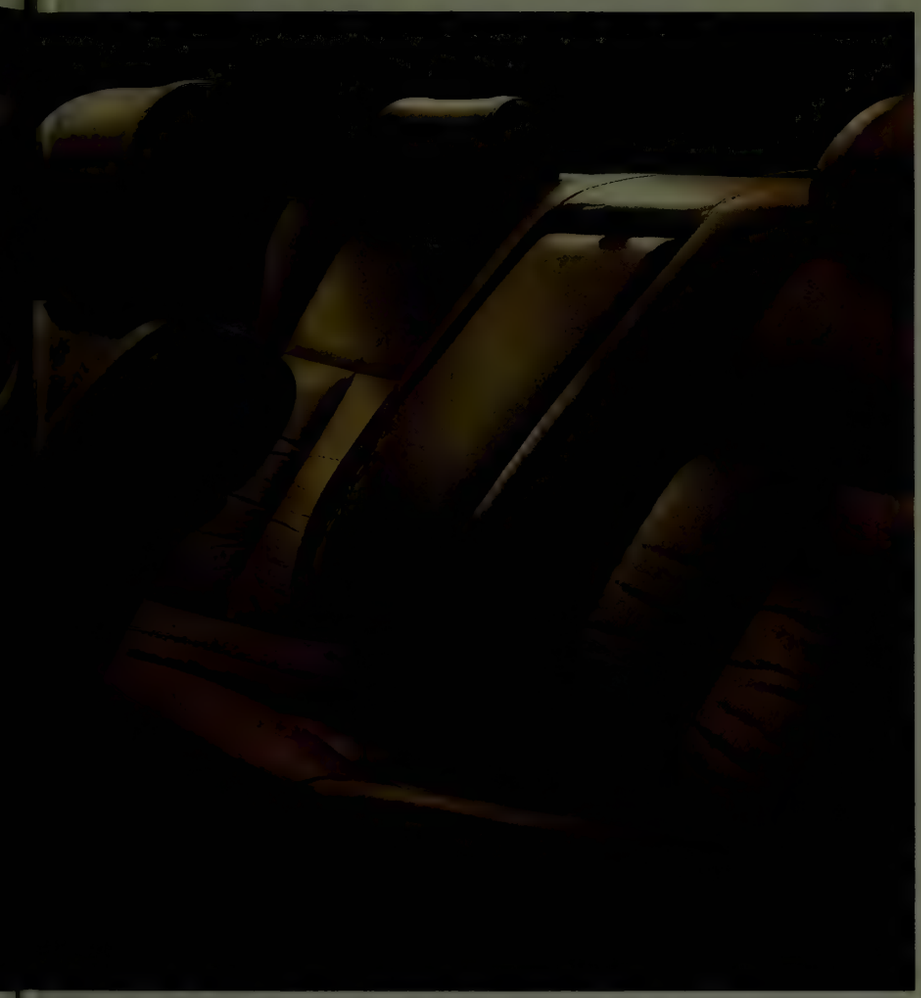

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At 66 Sam Farber came out of retirement to start a new business. It is off to a great start.

"I need to be making and selling things"

By Christopher Palmeri

SAM FARBER retired from the housewares business in July 1988. Six years earlier he had sold Copco, Inc., a maker of sleek-looking steel and enamel cookware, for $1.3 million. After 39 years of flogging pots and pans, he decided he had had enough. It was time to enjoy a house he rented in the South of France and pursue his first love: writing about and collecting art.

The reality didn't live up to the dream. "The art didn't take up as much of my time as I had hoped," he says. "And I missed the social contact of work." Within months of retirement Farber was cooking up another business idea. "I need to be making and selling things," he decided.

He hit on the idea of making user-friendly kitchen gadgets designed with the elderly and the handicapped in mind. Inspiration came from the troubles his arthritic wife, Betsy, was having with gadgets in their kitchen. "Every kitchen tool I felt was uncomfortable," says Farber. "I figured I could make a better mousetrap."

So he paid a visit to Smart Design, Inc. of New York City, a firm he'd worked with before. He convinced Smart Design President Davin Stowell to begin work on an attractive, easy-to-grip gadget handle. He persuaded Stowell to waive his usual design fees, which can run into the hundreds of thousands of dollars, in exchange for a 3% royalty and a small advance. "That reduced our upfront costs and made them part of our team," Farber says. Oxo International was born.

New concept in hand, Farber flew to Asia to check out manufacturers for his new gadgets. He eventually placed orders for a few hundred thousand units at firms in Japan, Hong Kong and Taiwan. Back home again in New York City, Farber began lining up investors. Relying on his contacts, Farber rounded up an advertising man, a lawyer, a warehouse owner and a Swiss-based importer, in addition to his son John, who left his job as an investment banker at Prudential-Bache to join Oxo. The group put up $1 million for tooling up the manufacturer's plants and for inventory.

Oxo's Good Grips line debuted at a gourmet show in San Francisco in April 1990, where Farber wrote $750,000 worth of orders. With only six employees, Farber uses independent sales reps to sell and distribute his 60 products. Those reps sell to all kinds of outlets, from Bloomingdale's to the Lechters housewares chain to the upmarket Chef's Catalog.

Farber's gadgets aren't cheap. A vegetable peeler retails for $7, versus $2 for your run-of-the-mill device. Oxo's scissors, which look something like hedge shears, sell for $17. But the gadgets are a lot easier on your hands.

In its first full fiscal year, ended last September, New York-based Oxo sold $3.4 million (wholesale) of its garlic presses, potato peelers and pizza cutters. Farber says the startup squeezed out a six-figure profit.

A year ago executives of Dayton Hudson's Target Stores asked Farber to start a lower-priced line that he called Prima. That is now about 10% of sales and growing fast. Farber now gets several calls a week with proposals to put his handles on everything from hammers to hairbrushes.

In a way, it's not surprising that Farber couldn't get housewares out of his system. His Russian immigrant uncle, Simon Farber, founded Farberware, famed for its aluminum-bottom cookware, in 1900. His father, Louis, owned Sheffield Silver, a maker of silver trays and servers, where Farber worked for 11 years after getting an economics degree from Harvard in 1948. In 1960 Farber founded Copco with a borrowed $25,000.

So no more thought of retirement. "Sooner or later the Lord will retire me," he says, "but I'm far too excited about what I'm doing now."

Jeffrey Lowe

Oxo International's father-and-son team, Sam and John Farber

When the key element of your product is design, it helps to make your designers partners.

At once the most leveraged of the major oil companies and one of the least profitable, British Petroleum poses some real challenges to its contrarian boss, Robert Horton.

Eager lions and reluctant lions

By Toni Mack

AFTER TWO YEARS in the U.S., Robert Horton got quite a shock when he returned to his native Britain in 1988. "It was like swimming in treacle," he recalls. "I would send out an inquiry and wouldn't get an answer. I spent my time at endless committee meetings. I'd swapped a culture of instant action for one of endless debate. I was deeply unhappy."

Called back to London from Cleveland, whence he had run the U.S. subsidiary, to become a managing director of giant British Petroleum, Horton lost little time in making his unhappiness felt.

There was much for Horton to be unhappy about. BP so lagged the competition. At $56 billion in assets, it is the world's third-largest publicly traded oil company after the Royal Dutch/Shell Group and Exxon. But its total return to shareholders over the last decade was half Royal Dutch/Shell's. Its average return on capital was half Exxon's. Efficiency? BP employs 118,050 people, and its profits per employee are less than half Exxon's or Shell's.

Long before taking the top spot, Horton had analyzed BP's situation. He knew that its problems stemmed neither from lack of money nor from lack of oil. They were people problems—not necessarily the wrong people, but the wrong atmosphere for people. In many ways this is the hardest problem to fix.

The man who is shaking up this old-line company is an engineer by training. When he entered the University of St. Andrews in 1957, not long after the end of World War II, business careers were still an unusual choice for people of Horton's background. It was still a Britain rather contemptuous of commerce, saving prestige for careers like law, medicine or diplomacy. But Horton greatly admired his grandfather, J.L. Baines, a leader in Britain's timber-importing industry. Recalls Horton: "He was a man of tremendous intellect and remarkable commercial flair." Horton took a degree in mechanical engineering and joined BP in 1960. He later earned a master's degree in management at MIT.

Perhaps taking a cue from his entrepreneurial ancestor, Horton refused from the first to fall into the bureaucratic mold that prevailed at BP. "I've always worked with a little personal myth that somehow I'm independently wealthy, and I don't need to work for BP," says Horton.

As head of BP's tanker operations, for instance, he stunned the division in 1976 by winning permission from senior management to sell more than half the fleet. What? An executive reducing his own empire? Voluntarily surrendering turf? But Horton was afraid neither to shake up his subordinates nor to persuade his bosses to do the unthinkable. Remembering the attendant turmoil, Horton chuckles. "If I'd been fired, God knows what I would have done. But my myth of wealth was my way of making myself intellectually honest."

When he was sent to Cleveland in 1986 to run BP's U.S. operations, he applied similar cold logic to a messy situation. BP had purchased 55% of the old Standard Oil Co. of Ohio, which was, to put it mildly, a mess. It was a touchy job. Here was Horton, a foreigner, coming to a fiercely proud midwestern city, throwing hundreds of people out of jobs and disrupting tradition.

Yet Horton succeeded in making himself liked and respected locally. Citing his work in education and other civic affairs, Cleveland's *Plain Dealer* hailed him as "a model of how talented and energetic corporate leadership can benefit a city." Quite clearly, here was a man with diplomatic skills as well as managerial ones. By

BP Chairman Robert Horton **"What I have to do now is get that cost base down, down, down, and profits up, up, up."**

Barry Lewis/Network-Matrix

mid-1987, Horton had doubled Standard's operating profit, convincing BP's board to spend nearly $8 billion for the remaining 45%.

When Peter Walters was ready to retire in 1990, Horton was the logical choice to succeed him. Walters had done the dirty part of the job. But BP now needed someone to bring some esprit to the company and to build on what Walters had wrought. BP at one point had been in 12 lines of business—everything from coal and minerals to computers and even cellular phones. Walters cut and sold almost $7 billion of assets, tightly focusing BP on four areas: exploration, refining and marketing, chemicals and animal feed. At the same time, he spent $16 billion on major acquisitions. His major purchases were the remaining 45% of Standard, independent explorer Britoil, and just over half of the 22% stake in BP that Kuwait had snapped up after the 1987 market crash. "Peter did the structural stuff," says Horton. "What I have to do now is get that cost base down, down, down, and profits up, up, up."

That requires changing deeply ingrained habits at a company that had once been an appendage of the British government.

Says Horton: "I am determined to make this organization a damned sight quicker and smarter than the opposition. And you do that by releasing the ingenuity of your people."

Almost Horton's first move was to assemble a team of seven bright, young middle managers. He set about exposing them to outside ideas, sending them to talk with people like management philosopher Peter Drucker and top-notch chief executives like Jack Welch of GE and John Akers of IBM. When they returned to London, Horton sat down with his chosen seven and wrote out a prospectus for a new BP.

The new structure would eliminate 80 of 86 corporate committees. It would push spending authority down into the organization. BP's headquarters staff was sharply reduced, from 2,400 to 1,400, with some of its former functions, like information systems and health and safety compliance, moved out to the operating businesses. Says Horton: "I'm convinced that participative management actually works." Russell Seal, who runs BP's refining and marketing operations, adds: "What this is all about is the simple belief that our people know more about their jobs than their boss and their boss' boss."

To encourage an upward flow of ideas from people accustomed to a hierarchical organization, Horton ruled that nearly all employees had to attend two- and three-day workshops to discuss change, clarify their goals and identify problems. Says Kate Owen, the BP staffer who has been overseeing this process: "The challenge is to show people it's not just the flavor of the month, that it's real change."

At least some staffers are responding. Says Allen Lewis, an information technology manager at BP headquarters: "Suddenly we don't have to go to a committee for permission to do something. We decide ourselves. I, like most people at the corporate center, feel freed up." Adds Ellen Lamparter, an American in BP's lubricants unit: "Instead of waiting for someone else to form policy, people are getting together a working group to devise a policy—for instance, on working at home."

Nigel Gibbs, who works in BP's research arm, sees the changes in these terms: "It's as though there were a lot of lions in a cage, and Bob Horton comes along and opens the door. Some lions sit back in the corner

Roger Hutchings/Network Matrix

ABOVE:
BP outlet in Thailand
LEFT:
Russell Seal, chief executive for refining and marketing
Heavy spending ahead.

and say, 'This has worked for 20 years. I don't see why it won't work now.' "

The problem of the reluctant lions, the ones who resist change, is not, of course, unique to BP. It exists everywhere. People worry that the freedom to make mistakes exposes them to getting the blame and getting fired for making mistakes. "Scary for them, scary for me," says Horton. "If people make mistakes, you have got to say, as Mr. [Thomas] Watson said many years ago at IBM, 'That's an expensive bit of management training you've just had, but it's cheap if you profit by it.' "

Learning from mistakes can be costly, but without it a business will stagnate. This is especially true in the exploration side of the oil business. BP once had few peers as an oil-finder—5 billion barrels *per year* from 1950 to 1970. That changed when nationalization in Kuwait, Iran and Nigeria robbed BP of 75% of its production. "We lost heart," says John Browne, who runs BP's exploration unit. In a recent study, analyst Michael Mayer of Wertheim Schroder ranked ten big oil companies on the basis of eight measures of exploration performance. BP ranked dead last. With production beginning to fall at Prudhoe Bay and the North Sea's Forties field, which together account for more than half BP's oil output, finding new oil has become a pressing need.

So with Horton's encouragement, Browne devised a new strategy that couldn't possibly have been implemented by a hidebound, risk-averse staff: searching for hydrocarbons in the more remote, less explored areas of the globe. Since Horton's team took over, BP explorationists have made two discoveries that smack of the old BP. One is in the foothills of the Andes in Colombia, the other beneath 3,100 feet of water in the Gulf of Mexico. Before Horton, BP's command-and-control management stifled this sort of risk-taking.

Analysts guess that BP will ultimately reap about a billion barrels from these finds. Add 400 million barrels from six North Sea discoveries, and that's somewhere around $5 billion worth of new reserves.

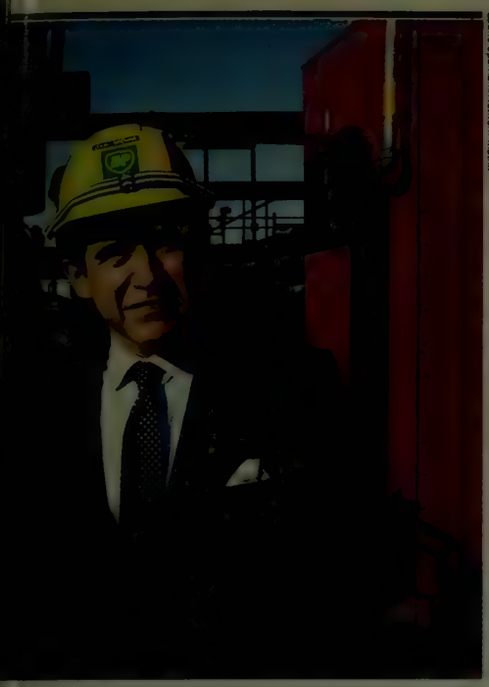
Browne's people are finding new worth in old discoveries, too. Told that output at the North Sea's Clyde field would turn uneconomic in three years' time, its staff cut costs and extended its life by at least two years. Another team found the problem that was causing pipe to get stuck during well drilling. Estimated savings: as much as $20 million a year. All told, Browne figures that his staff has added 20 cents to BP's approximately $3.50-a-barrel profit and aims to add 30 cents more.

Horton's work is by no means done. Having faced heavy spending to modernize 19,000 BP service stations and spent $768 million to expand into Spain, he must now produce another $800 million a year for the next few years to equip BP's refineries to meet new environmental rules, make more transport fuels and add capacity. Exxon and Shell are way ahead of BP here.

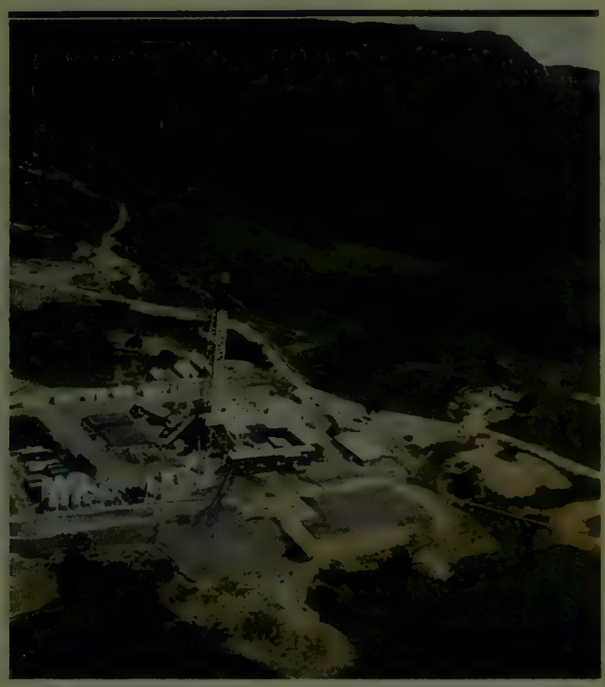
Chemicals? "Although chemists are doubtless pretty intelligent, they don't have much common sense," complains Horton. "They have this sort of rush of blood to the head, and they overbuild." At a time when prices and demand are weak, BP Chemicals is opening 42% more ethylene capacity. BP Chemicals was $38 million in the red in 1991's third quarter. Little relief is in sight.

Little wonder Horton is exasperated with the people who poured money into chemicals expansion at the wrong time. With an already high debt level, BP will need every penny it can generate internally to finance the needed capital outlays. Cash flow is a healthy $8 billion a year, but to help fund capital spending of some $7 billion this year, plus $1.8 billion in dividends, Horton faces a gap of nearly $1 billion annually between cash income and cash outgo over the next few years.

Horton says he doesn't worry about the debt level: 43% of capital, versus Shell's 17%. "I could never get my grandfather to understand leverage," he says, smiling. "He had a fiendish belief in having no debt on the balance sheet." But the grandfather started in business before corporate income taxes came along to subsi-



Laurie Sparham/Network-Matrix



ABOVE AND RIGHT:
Big finds in the Gulf of Mexico and Colombia
LEFT:
Chief explorer John Browne
An aggressive strategy.

dize interest payments, which are deductible from taxable income.

But rather than increase the debt ratio, Horton says he will finance his budget gap by selling assets. He regards selling assets as a useful discipline as well as a ready source of cash. "Everyone makes mistakes," he says. "Any manager who doesn't revisit his asset base and say, 'Is it working as hard for the shareholders as it might?' is not doing his job." Last year, for example, Horton sold BP's non-Alaskan onshore U.S. oil and gas operations to Pacific Gas & Electric Co. and Central & South West Corp. for $650 million.

Still, cash looks tight for BP over the next few years. First Boston analyst William Randol figures weakening oil prices and lackluster product margins tugged earnings down 10% last year, to $1.9 billion, and will pull them down to $1.7 billion in 1992. Those figures translate into earnings of $4.35 and $3.80 on BP's ADRs, which are listed on the New York Stock Exchange. Lest these weakening earnings further depress his stock price, Horton can scarcely cut BP's generous $4.05 dividend, which gives the ADRs a rich 6.5% dividend yield.

At any rate, if Horton's optimistic contrarianism about oil prices is correct *(see box)*, help is on the way. With oil at $25 a barrel, BP could earn $7.50 a share, twice what it will probably earn this year.

There are moments, Horton confesses, when he wishes he could deal with some of his problems more quickly, rather than waiting for his subordinates to deal with them on their own. But that, he recognizes, would be self-defeating to his goal of producing an efficient and responsive organization. "Because I am blessed by my good brain," he says, "I tend to get to the right answer rather quicker and more often than most people. That will sound frightfully arrogant, but it's true. So I have to rein in my impatience." That seems like precisely the mix of self-confidence and personal discipline required to run effectively an organization as sprawling and complex as BP.

The next oil crisis?

"I'M A contrarian by nature," says Robert Horton. "The conventional wisdom is almost always wrong." The conventional wisdom he is bucking these days is the consensus that says oil prices will remain weak, sinking as Iraq and Kuwait begin to export and then rising modestly over the decade.

Horton instead is working with a forecast that says the price of the North Sea benchmark crude, Brent, will rise from a recent $18.05 to $25 in real terms by the mid-1990s. Over four years, that's an annual jump of 8.5%—on top of inflation.

How so? Oilfields in Russia, Alaska and elsewhere are in decline, while demand will grow. Horton figures the world must add output equal to 10% to 15% of current production of about 65 million barrels a day. That, he says, will require investment of $150 billion in OPEC, including reconstruction of Iraq and Kuwait, and $100 billion in non-OPEC countries.

"With oil prices at current levels," says Horton, "there's no way that money's going to be found. Thus we are heading for one of our perennial supply-demand crises at some stage in the mid-to-late-1990s. Unless people appreciate the sensitivity of the situation, we'll be at $35 or $40 oil."

He adds: "Doubtless, people will say, 'Well, Horton would say that, wouldn't he?' because BP is the most leveraged to oil prices [adding 54 cents to earnings per share for every $1 rise]. But I genuinely believe it."

Is Horton right and the consensus wrong? We don't know, but experience has taught us that oil crises have a way of sneaking up and surprising almost everyone.

–T.M.

Mexico's beer and banking baron Eugenio Garza Lagüera learned his lesson about debt and diversification, and is now looking for partners.

The resurrection of Don Eugenio

By Claire Poole

WALKING THE FLOOR of his beer bottling plant in Monterrey, Mexico, Eugenio Garza Lagüera shakes the hands of workers, watches fresh Carta Blanca beer being injected into brown bottles and inspects a freshly sealed can of Tecate beer. "This," says Garza, in a sentimental reference to his family's century-old beer business, "is how the whole thing began."

And nearly collapsed, too.

Garza, 68, and his family control $1.7 billion (revenues) Valores Industriales, S.A., more commonly known as Visa, Mexico's fifth-largest publicly traded holding company after Teléfonos de Mexico, glassmaker Vitro, steel company Alfa and retailer Cifra. Visa's foundation stones were laid in 1890, when Garza's grandfather, Isaac Garza, and his brother-in-law and partner, Francisco Sada, established their brewery, Cervecería Cuauhtémoc, named after the last king of the Aztecs and one of Mexico's national heroes.

Out of necessity, Garza and Sada started making glass bottles and boxes to package their beer. During World War II they and their heirs began manfacturing steel to ensure a supply of bottle caps. Over the years the Garzas and Sadas' sprawling operations became known simply as the Monterrey Group, after the northeastern Mexican city that is the clans' headquarters.

In 1973 Garza's father, Eugenio Garza Sada, was kidnapped and assassinated by leftist guerrillas. Garza Sada's heirs, who felt vulnerable to further attacks, split up the Monterrey Group into four companies and spun them off to family members. Eugenio Garza, then 49, was given control of the beer operation, as well as the Monterrey Group's banking operation, Banca Serfin. The group was christened Visa.

Then Garza, like many Mexican industrialists, got into trouble. During the oil boom years of the late 1970s and early 1980s, credit was cheap, and Visa borrowed freely to diversify away from beer and banking into soft drinks and mineral water, as well as into unrelated fields like hotels, animal feed and automotive parts. But when the price of oil took a dive in 1982, so did Visa, which by then was in debt to the tune of $1 billion. To top it off, the government expropriated Banca Serfin.

Garza, who is known around Monterrey as "Don Eugenio," started raising cash. He sold Visa's hotels and other businesses unrelated to its core beverages and packaging businesses. And he began lining up new lenders—including the World Bank's International Finance Corp., Mexico's finance company, Nacional Financiera, and Citicorp—to help him reorganize Visa's capital structure. He did this while successfully fending off a cousin's bitter proxy fight to wrest control of the company.

In 1988 Don Eugenio pulled off a complicated equity-for-debt restruc-

Adrian Bodek

Visa's Eugenio Garza Lagüera (left) and Othón Ruiz Montemayor
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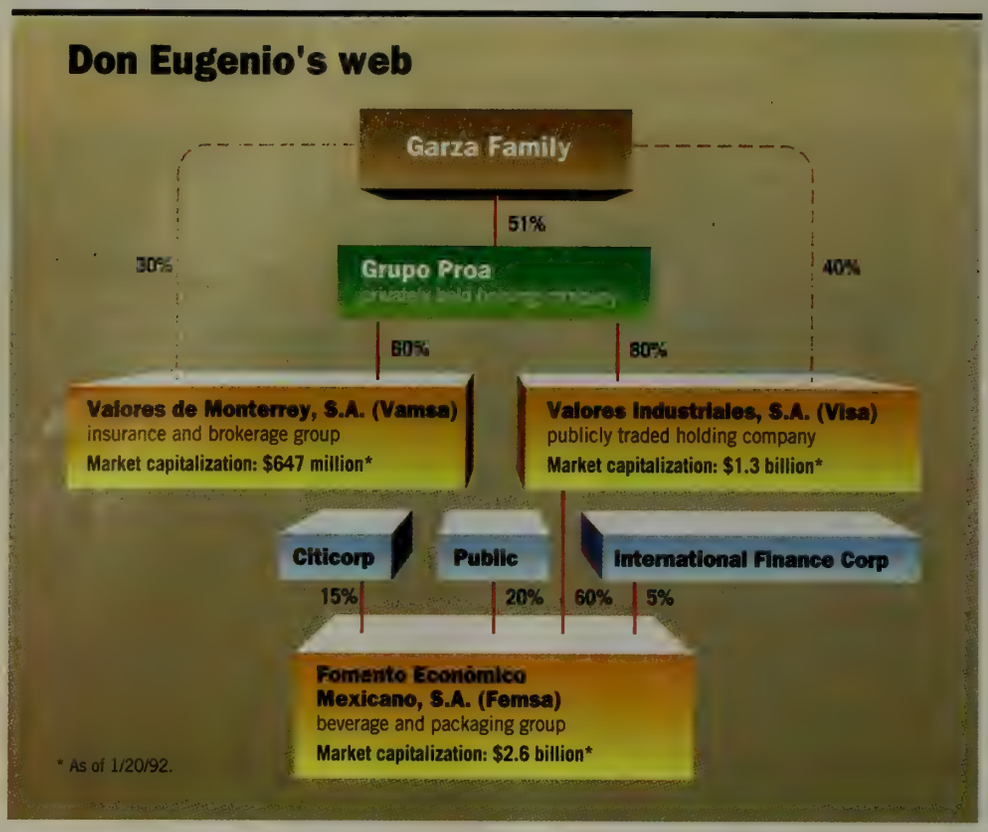

A. Christie/Forbes

Like many Mexican groups, the Garza empire has a complicated capital structure. After the restructuring, add to the list Grupo Financiero Bancomer, which will consist of the bank and brokerage business and be 34% owned by Femsa's shareholders.

Walter Iooss/Image Bank

Sergio Dorantes

A village billboard advertising Dos Equis; a branch of recently acquired Bancomer

Basics: beer and banking.

turing. In essence, the restructuring wiped out nearly three-quarters of Visa's $1.7 billion debt load and gave its new creditors around 20% of the equity of a newly created, publicly traded beverage and packaging company called Fomento Económico Mexicano, S.A., or Femsa. Visa retained 60% of Femsa, and the remaining 20% of the shares trade on Mexico's Bolsa.

Through Grupo Proa, a privately held holding company, Garza's family still owns around 40% of Visa, a stake currently worth nearly $550 million. The remaining 20% trades on Mexico's Bolsa. Through Grupo Proa, Garza's family also owns 30% of insurance group Valores de Monterrey, S.A., or Vamsa, a stake worth nearly $200 million. The rest of the shares are publicly traded. Altogether, Garza's family is worth around $750 million *(see chart)*.

Garza is still restructuring. He is now looking for foreign partners to buy up to 49% of Femsa's beer, soft drink, mineral water and packaging divisions, which generated $1.8 billion in sales last year and are expected to turn over another $2.1 billion this year. Analysts believe Garza is looking for 1.5 to 2 times book value, or as much as $2.6 billion. Likely suitors: Adolph Coors Co., Heineken and Coca-Cola Co.

"We want to be a bigger beverage company worldwide," Garza explains. "And we need good friends to help us do that."

Finding partners shouldn't pose much of a problem. Mexico is becoming something of a miracle economy, and Femsa's beer division controls 51% of Mexico's beer market. Its brands include Carta Blanca, Superior and Tecate—respectively, they are the second-, third- and fourth-most popular beers in Mexico—as well as smaller premium labels Dos Equis and Bohemia. Unlike the shrinking U.S. beer market, Mexico's grew 4% last year and is expected to grow at 4% to 6% a year through 1994.

Meanwhile, with distribution rights to Mexico City and Mexico's southern states, Femsa's soft drink division has the world's biggest Coca-Cola bottling franchise, measured by population; Coke has 60% of Mexico's soft drink market, versus 20% for Pepsi. And Femsa's mineral water unit consists primarily of Peñafiel, the market leader and the only national brand in Mexico.

Now that the government of President Carlos Salinas de Gortari is privatizing Mexico's banking system, Garza has agreed to pay $2.8 billion for 56% of $26 billion (assets) Bancomer, Mexico's second-largest bank after Banamex.

When Garza pays the balance for the bank in April, he will spread ownership of the bank between Grupo Financiero Bancomer, which will then own 51% of the bank as well as the stock brokerage firm Acciones Bursatiles, and Femsa shareholders, who will own 34% of the new banking and brokerage group.

Don Eugenio and his right-hand man, Othón Ruiz Montemayor, the director general of both Visa and Femsa, spend long days looking for the best way to make Femsa a serious competitor in the worldwide beverages industry. Any thoughts of handing the reins to a fourth-generation Garza? Apparently not right now. Says Don Eugenio, referring to his colleagues: "They won't let me slow down."

"Views From Hillsdale College"

Congress Should Join Waste Watchers

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In our Congress, perpetual incumbency is now the rule with the Senate re-election rate at 85% and the House at 98%, effectively making service in Congress a lifetime sinecure and accountability to one's constituents almost non-existent. The financial advantage of incumbents able to draw upon millions of dollars in support from PACs and special interest groups for a single campaign is almost invincible.

The proliferation of congressional committees and subcommittees makes the budget process increasingly difficult. Porkbarrel appropriations are hidden in every budget to satisfy special interests. The immediate reaction to every crisis is to apply more federal funds although the massive applications of these funds has done little to solve our major social problems and the decline in our educational standards. Congress is not held to bottom line performance, and the bottom line keeps getting redder.

Congress should join Waste Watchers. But it is a forlorn hope unless the seats in Congress are made more competitive. In the heartland of America, there is momentum for political reform and other curbs on Congress such as a line item veto and a balanced budget amendment.

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Speculators drool at the prospect of a takeover for little Century Telephone. They can forget it. Century thrives on its independence.

Minding its own business

By Christopher Palmeri

HIS FIRST telephone company came as a wedding present in 1946 from his father, who had acquired the tiny, 75-customer firm in Oak Ridge, La. some years earlier for $350. It was an appropriate gift. Clarke Williams is a telephone man through and through. By the age of 8, Williams was manning a switchboard and delivering phone bills on his bicycle.

Headquartered in out-of-the-way Monroe, La., Williams, now 69, built from those small beginnings, slowly, patiently, expertly, a small but efficient operation, Century Telephone Enterprises, whose revenues this year should top $300 million. Although way down in sixteenth place in number of customers served, Century is no mean operation. It serves some 380,000 telephone customers in 15 states and controls more than 5.5 million potential cellular telephone subscribers, or "pops" as the industry calls them.

For the first 30 years Williams bought other small telephone companies, some 50 in all. When he started there were 7,500 independent phone companies in the U.S.; there are still 1,300. "There was always somebody who wanted to sell because the children weren't interested," Williams says. Lots of people wanted to buy these companies, but Williams had something special to offer: not financial razzle-dazzle but the attraction of one family management selling out to another, with the seller's being assured that Williams would take care of faithful employees, not treat them with cold corporate contempt. Although acquisitions and expansion have diluted Williams' stake to just 1% of Century's 31 million shares, there is little question who is in charge.

Since 1985 Century's expansion has concentrated on cellular. One focus has been to acquire (directly or through the license lottery) cellular rights for small rural properties around major traffic corridors and metropolitan areas. "Williams realized that clustering this way makes rural properties as valuable as metropolitan properties," explains analyst John Reddan of Moran & Associates. Rural properties are cheaper, typically selling for a third the price per pop of their metropolitan counterparts.

Through clustering, Williams can achieve economies of scale in marketing and back-office operations comparable to big-city companies. Over 88% of Century's telephone and cellular properties are situated in four states: Louisiana, Michigan, Wisconsin and Alabama.

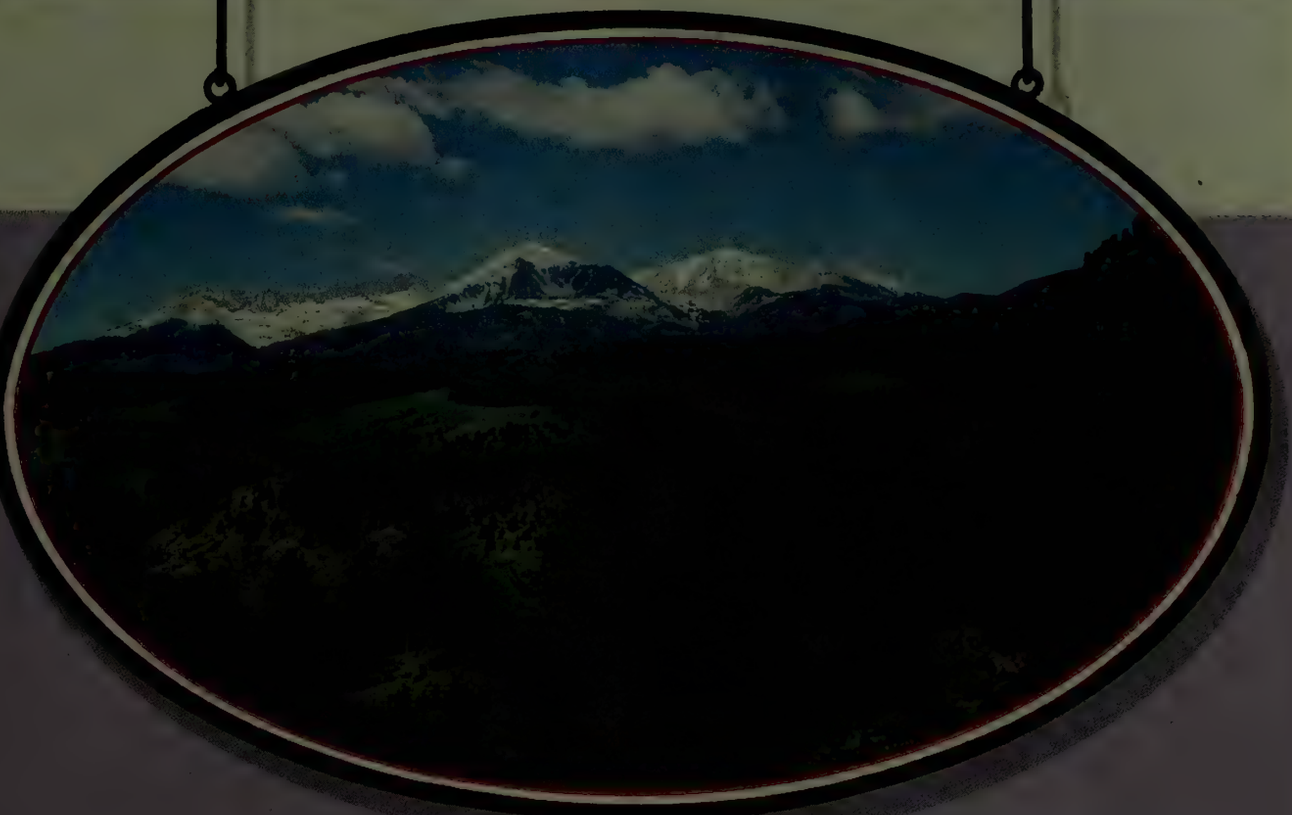
Century keeps a conservative balance sheet, with debt around 45% of capitalization. "We are getting the cellular upside with very little financial risk," he says.

No surprise that Williams fiercely guards Century's independence, attractive as the company is to would-be acquisitors. Unfortunately, Williams'

Jackson Hill/Southern Lights

Century Telephone Chairman Clarke Williams and wife, Mary Kathryn
Now that their wedding present is a billion-dollar business, will it be swallowed up by a telephone Goliath?

The most precious thing you can own



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only son, Clarke Jr., suffered a cerebral hemorrhage in September of 1989, brought on by an earlier bout with Hodgkin's disease. Having served six years as president, the 40-year-old tried to return to work, but ultimately retired in July 1990. "That was a great disappointment," Williams confides.

Smelling a takeover, speculators ran Century's stock price up to a peak of 36. Century already had in place an unusual provision granting ten votes per share to anyone owning his shares for more than four years, versus only one vote for latecomers. Last May Williams persuaded shareholders to toughen Century's defenses against hostile takeover by limiting the ten votes per share to anyone owning shares prior to May of 1987.

Money manager Mario Gabelli, Century's largest stockholder after the company's employee savings plans, sued to reverse that maneuver. Gabelli's funds own nearly 14% of the stock, almost all purchased since 1987. His suit was dismissed, and Gabelli agreed to drop an appeal in December in exchange for Century's reimbursement of some of his legal costs. Thanks to this 10-for-1 provision, Century's 2,000-plus employees now control about 40% of the company's voting rights.

"This is not a case of management protecting its position," says Williams. With his son out of the picture, Williams knows he cannot keep control in the family. But he does want to keep control with the current management—and, with Century's excellent record, he makes a good case for it. Century has outperformed every other telephone stock in the eight years since the AT&T divestiture, a better than 600% return. It earned $37 million, $1.20 per share, on revenues of $280 million in 1991. Analysts are predicting $1.40 for this year.

Williams has traveled to nearly every Century office in the last two months, giving employees his vision of the future. "I want them to know that we are in this for the long haul," he says. "That we are still in growth mode." As tempting a takeover prize as Century might seem (the stock jumped 10% after Centel announced it was for sale), Williams' message is clear: Forget it. ■

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Mike Quinlan, Chairman, CEO McDonald's (left)

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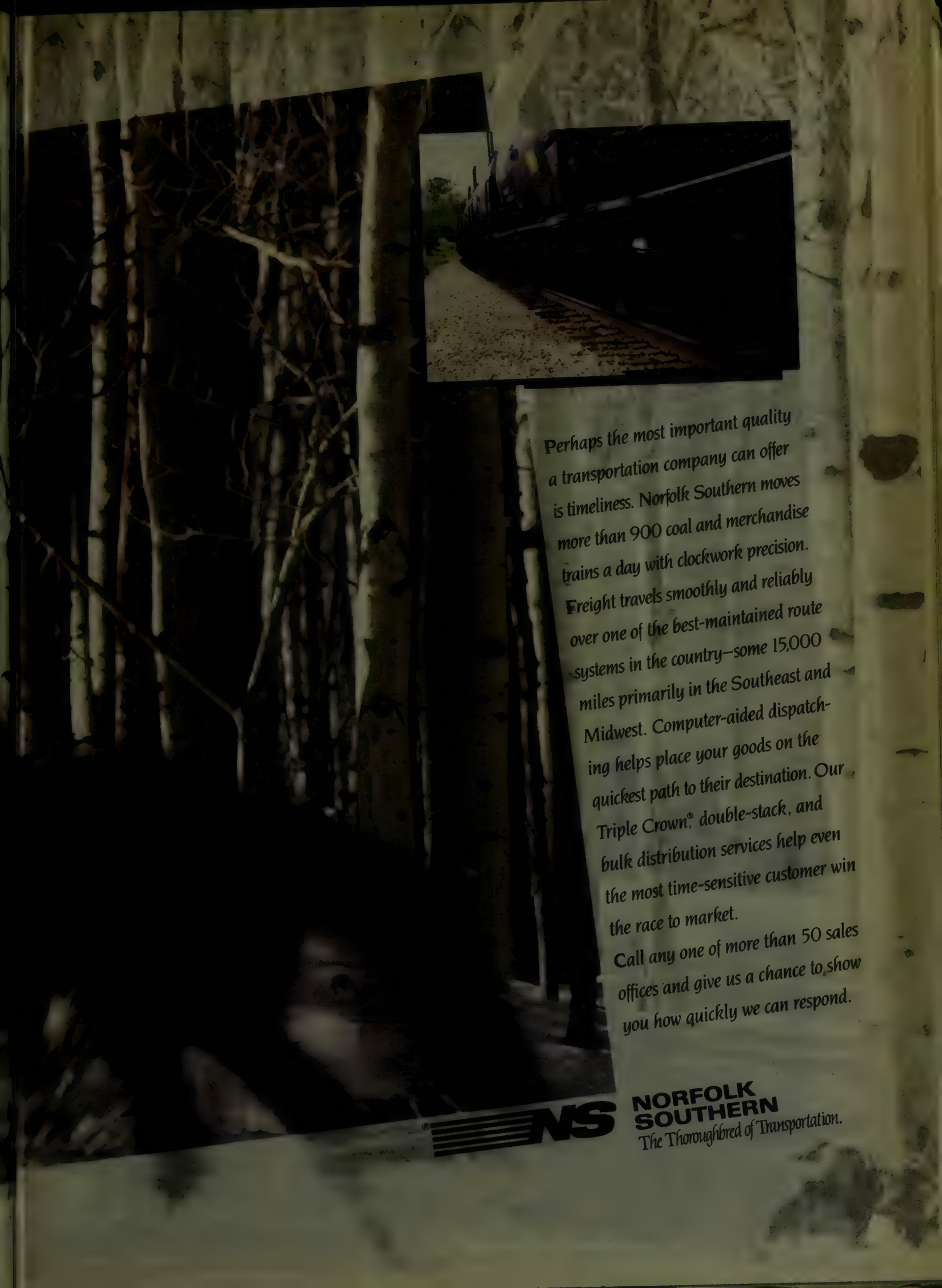

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Saddam Hussein has inflicted far more horrors on the Iraqi people than the Allied forces did. Early estimates of Iraqi war dead were grossly inflated.

Saddam is hell

BY MICHAEL NOVAK

Michael Novak holds the George Frederick Jewett chair in religion and public policy at the American Enterprise Institute in Washington, D.C. His book *The Spirit of Democratic Capitalism* has been widely translated around the world.

MID-FEBRUARY a year ago, we were waiting in trepidation to see when the land war in Kuwait would begin (especially if we had family members there)—and how it would go. In the press and in the churches, a great moral argument was still raging. Was the war just? Would sticking to sanctions have been better?

The answer to the last question is easy. We did stick to sanctions. The embargo is still on. And Saddam Hussein still refuses to comply with U.N. terms. He says the Iraqi people would "rather eat grass." One doubts if Saddam Hussein speaks for the Iraqi people. Both food and medicine are exempt from embargo, yet he is currently withholding from them entire warehouses of food and medicines that continue to arrive. If sanctions have not budged Saddam Hussein on lesser matters, they would never have driven him out of Kuwait.

Moreover, if the war had not stopped him, Saddam Hussein would by this year have been in possession of a nuclear bomb. He might now be threatening to bomb Israel—or the coalition forces on the Kuwait border. The same Saddam Hussein who was later to kill tens of thousands of his own citizens, Kurds and Shiites, and who set ablaze hundreds of Kuwaiti oil wells out of pure spite, would have been in a position to threaten nuclear terrorism in New York City.

Did this war have a just cause? You bet it did. But what about proportionate casualties?

The biggest surprise of the war was the incredibly low casualty count, not only for the U.N. coalition, but also

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or the Iraqis. If we count just the period during which U.S. forces were in action, Jan. 16-Feb. 28, the U.S. and allied dead numbered in the low hundreds, not the tens of thousands that many dreaded.

Even the Iraqis took many fewer casualties than expected. The Iraqi government issued a daily report on the number of civilians killed in the air war, and this number was added up by *USA Today*. The Iraqis had every motive for inflating that number, but when the air war concluded, the announced total was just 1,591. A British reporter who visited hospitals at that time noted the small number of wounded and the many empty beds.

By virtually all testimony, too, the amount of collateral damage to civilian buildings in Baghdad and other civilian areas (Basra possibly excepted) was remarkably light. In World War II most damage was done by concussion, since a bomb that landed within a half-mile of its target was considered a "direct hit." In Vietnam, within 500 feet was a hit. In Iraq, "lock on" precision guidance systems were available not only for the "smart" bombs of the Stealth but also for the weapons employed by F-111s and F-15Es. (Stealth was the only aircraft to hit central Baghdad.) Electro-optical technologies gave ground attack aircraft uncanny accuracy against tanks.

When an explosive device can be directed through a window, door or air duct, so that its full force is felt within rather than on the surface, a far lower explosive charge is necessary. Collateral damage is contained. That is how airfield bunkers, military headquarters and even television towers, antennas, power grids, cable lines and bridges were taken out by the hundreds. Immediately adjacent structures were usually left intact. The world had never seen the like before.

With the proviso that the actual number might be half that, blue-sky estimates on Mar. 1 suggested that 100,000 Iraqi soldiers might have fallen in the four-day ground war. Such estimates presupposed more than 600,000 Iraqi troops in Kuwait. From battlefield reports, the *New York Times* calculated somewhat later that the number of dead, as distinguished from wounded, was probably closer to 25,000 to 50,000.

During months of research, a team of reporters from *U.S. News & World Report* found through persistent interviewing that this number was actually far lower. Their book, *Triumph Without Victory,* places the figure at between 8,000 and 18,000. They argue for the low side for three main reasons. Iraqi forces in the field were much smaller than first estimated—closer to 350,000. Second, massive desertions took the numbers even lower. Third, actual observation of the dead turned up far fewer than the first wild estimates. (One assessor who walked "the highway of death" counted 15,000 vehicles but under 400 bodies.)

Nearly all the suffering of Iraqi citizens since Mar. 1, 1991 is due to Saddam Hussein's refusal to heed U.N. resolutions. Had he done so, the embargo would have long since been lifted. Electric grids would be back in service. That very rich country would be becoming richer.

Under Saddam Hussein, peace is hell. Saddam Hussein is still a curse upon Iraq. It was never our moral duty to remove him. But it could yet become so. ■

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Alabama is inside the continental United States. In fact, it is located in the center of the most desirable relocation region in the country.

All work and no play wouldn't make sense in Alabama. Enjoying an old rocker, a wide porch, and some good conversation is still a favorite pastime here.

You will still see a lot of Alabamians goin without shoes—mostly on the sandy whit beaches of Gulf Shores.

While you might think of overalls as the clothing of choice, most uf us prefer blue or white shirts. Alabama's traditional labor force has shifted from farming to more service and high-tech industries.

Alabama Isn't Where You Think It Is.

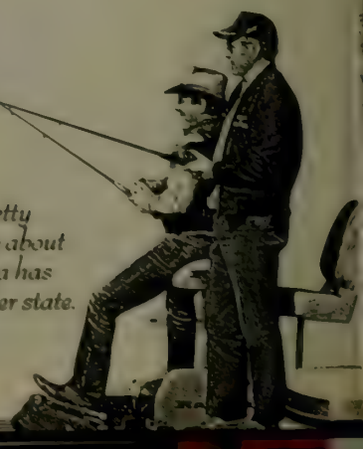
Football rivalries her strong as ever. But to colleges and universi helping Alabama bu maintain a competiti as well, offering rese capabilities in areas automotive manufacti magnetic information to food products

If you think we tak moonshine, you're only right. But it isn't the k moonshine you think. O has played a leading n developing the space pr In fact, Alabama has pr seven astronauts—more any other state.

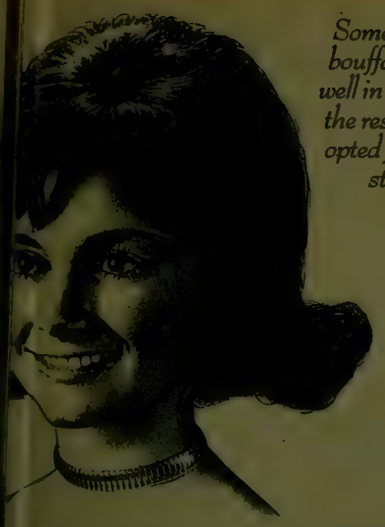
Some say you're moving to the edge of the world when you move to Alabama. In some parts of the state, you could say that's true; the southern ridge of the Appalachians offers some spectacular views.

Practicing our aim is still a favorite pastime for many Alabamians. In fact, our prowess as sharpshooters was proven in the Gulf War by the Patriot Missile, which originated in Alabama.

The fiddle may be the first musical instrument you would connect with Alabama. And you'll still see a lot of them in the state's many symphony orchestras. (Although they refer to them as violins.)

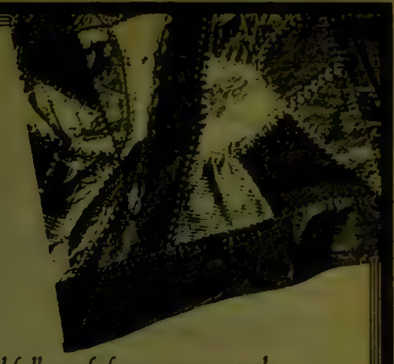


Yes, we do a lot of fishing here. And some pretty important people, including the President, know about our beautiful lakes and rivers. In fact, Alabama has more miles of navigable waterways than any other state. We use them for shipping, too.



Some are convinced the bouffant is still alive and well in Alabama. But, like the rest of the country, we opted for more up-to-date styles years ago.

Sorry, that's a different state entirely.

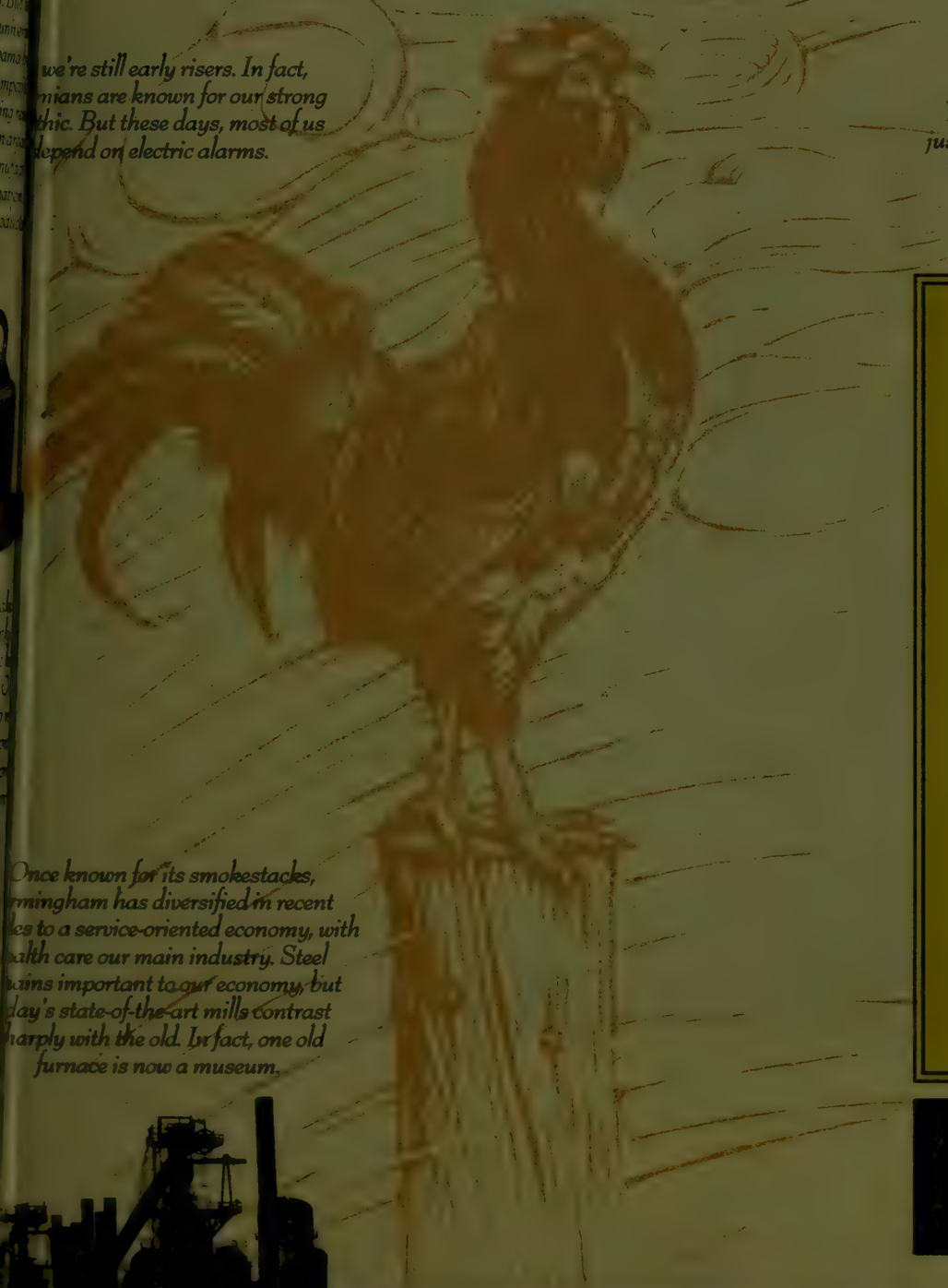


A revered folk craft from our past, the attention to detail and intricate handwork used in our quilts has been passed down to newer generations and applied in fields like electronics for assembling circuit boards.

So you think our workers come out of trailers. Some of our best actually do. Alabama Industrial Development Training, a free service to industry, has the nation's largest fleet of mobile training units. Some businesses have traveled from as far away as Singapore and Japan to employ AIDT-trained workers.

Yes, you'll probably see a few cows. But we don't just settle for raising cattle. Researchers at Auburn University have developed a whole line of leaner foods like the McLean burger, a product McDonald's is flipping over.

we're still early risers. In fact, mians are known for our strong thic. But these days, most of us depend on electric alarms.



Once known for its smokestacks, mingham has diversified in recent es to a service-oriented economy, with alth care our main industry. Steel ains important to our economy, but day's state-of-the-art mills contrast arply with the old. In fact, one old furnace is now a museum.

If Alabama is nowhere near what you thought, maybe there's more you should know about our state. For instance, what makes it a great place to live and a great place to work. What makes companies like JVC America decide to make their headquarters here. Why GE has made its largest single capital investment, close to $1 billion, in Alabama. And why people like one Connecticut family, who thought they were being "sent to hell" when transferred here, now like it so much, they wouldn't think of leaving. If your company is considering expansion or relocation, consider Alabama. You just might find it's pretty close to ideal.

ALABAMA

It's the age of coping, not groping. So Christie Hefner is creating a more mature image for Playboy in the U.S. market. But for formerly repressed societies in Eastern Europe and elsewhere, the old hedonistic image still plays just fine.

The rabbit grows up

Lewis Toby/Black Toby

Playboy Enterprises Chief Executive Christie Hefner and Chief Marketing Officer Robert Beleson
Leading Playboy into the post-Hef era.

ONE GETS a little wistful walking through Hugh Hefner's Playboy Mansion in the exclusive Holmby Hills section of Los Angeles these days. There's the grotto with the two Jacuzzis for communal high jinks, but no one uses them much anymore. The giant sauna now garages a plastic tricycle that belongs to Hefner's 2-year-old son, Marston.

It's the Nineties, and even Hef, now 65, has acknowledged that prowling has given way to nesting. He's hung up his pajamas, given up his trademark pipe and settled down with 1989 Playmate of the Year Kimberley Conrad to start a new family.

Playboy Enterprises is keeping pace by giving the company's swinging bachelor image a mild Hefectomy. Playboy will remain devoted to things sexual—that, after all, is the core of its franchise. But yesterday's feckless, reckless rabbit will become a more sensitive, ruminative rabbit.

"We don't think men should necessarily be sitting around crying and beating drums," says Christie Hefner, the founder's 39-year-old daughter, who took over as chief executive in 1988. "But there is a widespread interest in how men are coping with being in the workplace, coping with women. We can address that."

One early indication of the shift: Playboy has joined forces with the Roper Organization, a polling outfit, to produce a study monitoring how men feel about being men. The study, called Man Track, is scheduled to show up in future issues of *Playboy*. So now, in addition to gazing at someone else's navel, men can contemplate their own.

Playboy's videos are still saucy, but the emphasis has changed from quantity to quality. Many of the newer videos carry titles like *Secrets of Making Love to the Same Person Forever*. A series of massage tapes, with an accompanying kit, produced in a joint venture with the Sharper Image catalog and retail chain, is called the "For Couples Only" collection.

In product marketing, an area it is counting on for growth, Playboy is revamping its entire approach. In the past, Playboy licensed its rabbit-head logo to almost any manufacturer that could ante up 5% to 10% of merchandise sales. The result: tacky air-fresh-

"Nothing great was ever achieved without enthusiasm."

Ralph Waldo Emerson

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Photograph by Pete Turner

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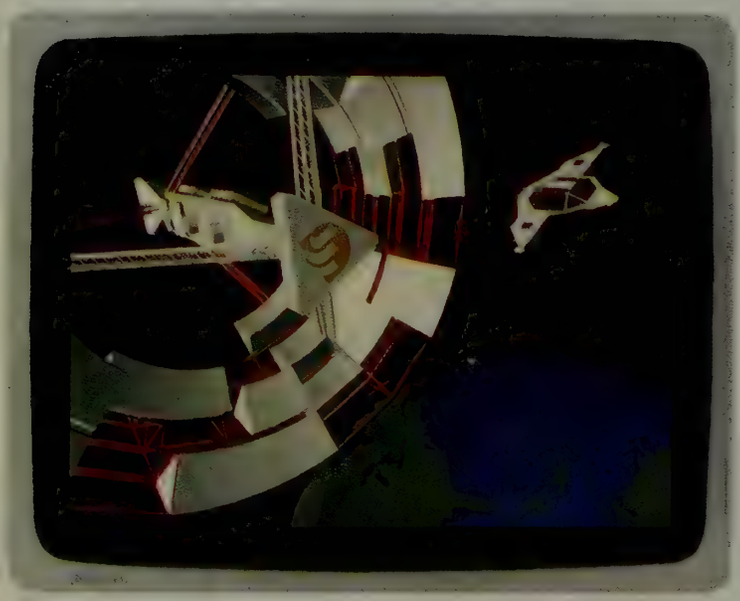

"Space Flight Fantasy 1," built using Intergraph's MicroStation software and rendered with Intergraph's Model View software. **(Fluor Daniel Inc.)**

"Galileo In Orbit Around Jupiter," built using Intergraph's MicroStation software and rendered with Intergraph's Model View software. **(McDonnell Douglas Space Systems Company)**

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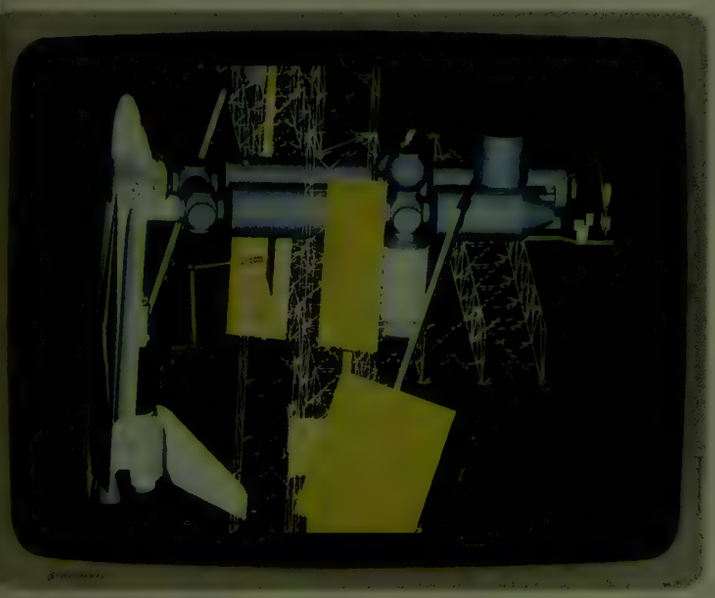

Solid model of a dual-keel configuration, developed in an early conceptual design of the proposed Space Station.
(NASA/Marshall Space Flight Center)

"Conceptual Lunar Lander," built using Intergraph's MicroStation software and rendered with Intergraph's Model View software.
(McDonnell Douglas Space Systems Company)

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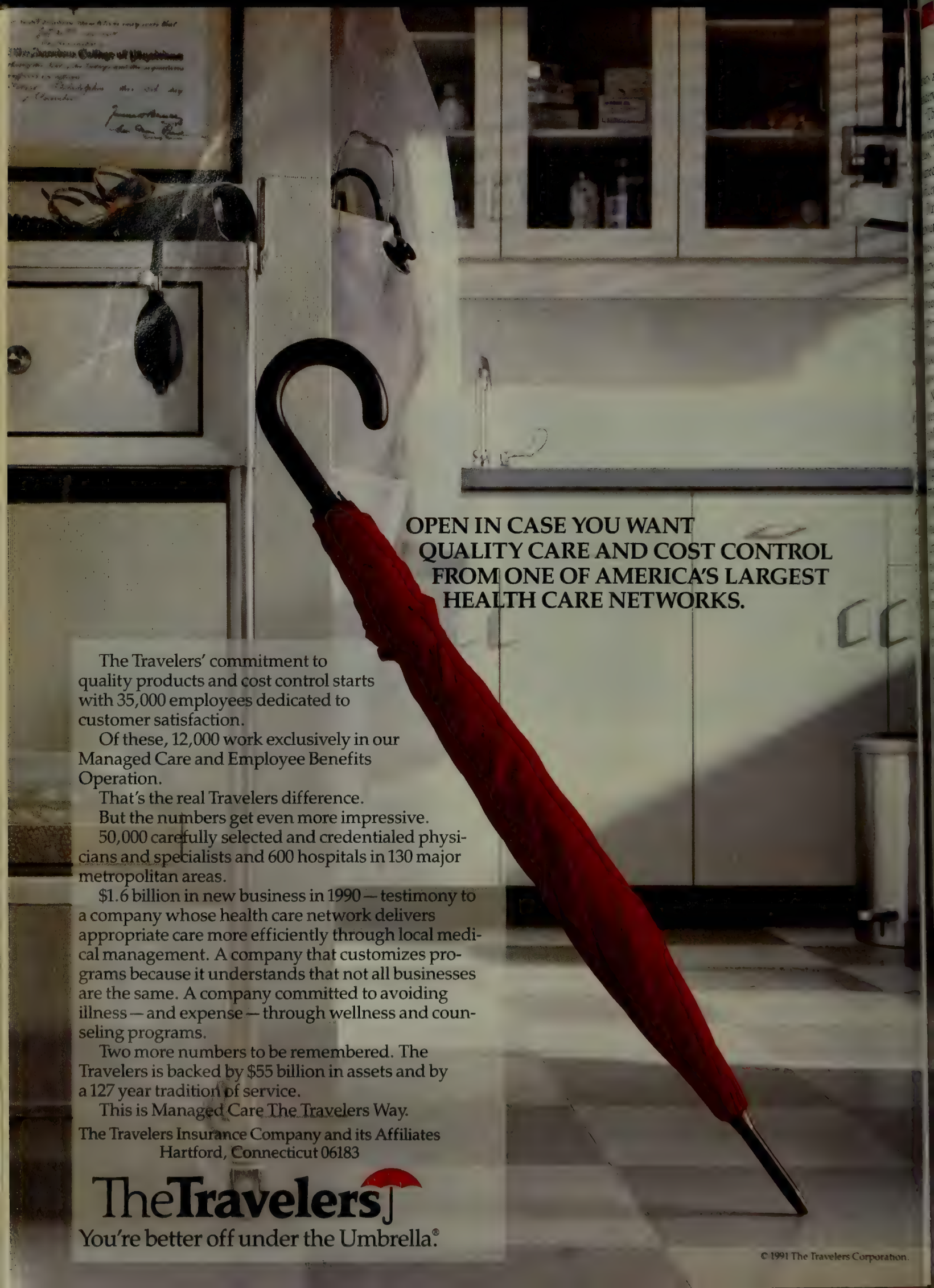
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eners and seat covers for cars, cheap underwear and shoddy shoes.

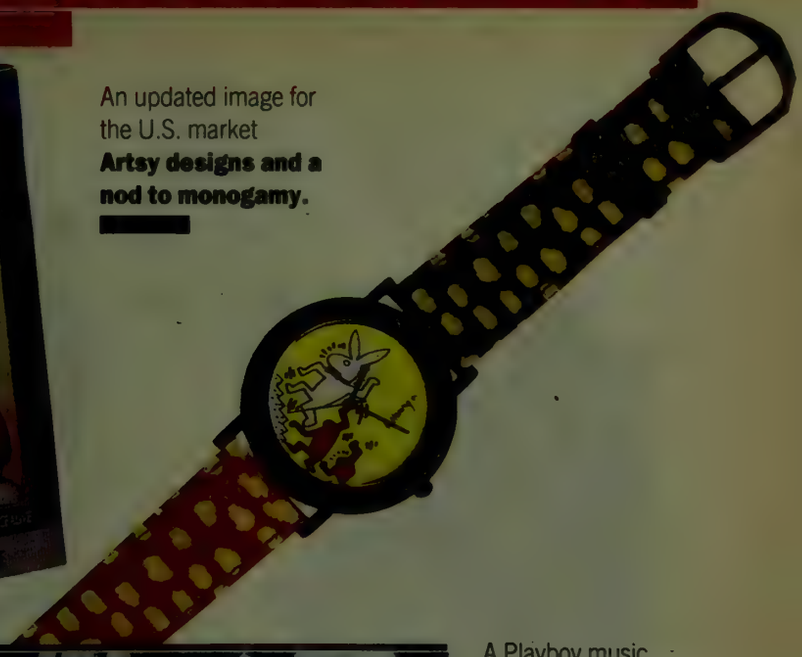
"The philosophy was take the money and run, so you got mass, not class," says Robert Beleson, who signed on last May as chief marketing officer for the Playboy brand.

Playboy has been earning, pretax, about $3 million on licensing revenues of $6 million for the past several years—a steady income stream. But those products—particularly the cheesy hang tag deodorizers for cars—gave the rabbit a black eye. "You always saw those hang tags in pickup trucks, never in Porsches," says Beleson.

No more. Playboy is revoking some licenses and letting others lapse. The rabbit-head hang tags are being phased out. Instead, Playboy is creating its own designs for licensees and trying to get into swankier settings with better-heeled buyers. For instance, Playboy will start using artworks owned by its Special Editions, Ltd. art publishing subsidiary and developing products around the images. So, for example, a blue leather jacket with a Keith Haring design on the back will sell for $1,200. A new watch with a Haring design goes for $65 in Bloomingdale's. "We've got the taste patrol in place," says Beleson. "Nothing tacky is going to make it through."

The magazine itself is fairly healthy. Although far below the record 1,452 pages of advertising carried in 1979, ad pages rose 4%, to 749, last year during a horrendous dip in the magazine industry. But Christie Hefner concedes that *Playboy*'s domestic circulation of 3.5 million has little room to grow. And revenues of the publicly traded company—$174 million in the fiscal year ended last June 30—have been largely flat. Pretax earnings in 1991 were $5.9 million, down from $7 million in 1990.

Playboy's greatest opportunities lie in overseas markets, where the company feels its image needs no tinkering. Repressive political regimes seem invariably to be followed by a great outpouring of interest in sex. After the death of Generalissimo Francisco Franco in 1975, Madrid's kiosks bloomed with pornographic magazines. As the Berlin Wall crumbled, busloads of repressed East Germans flocked to Hamburg's sex shows and shops (FORBES, *Sept. 17, 1990*).



An updated image for the U.S. market
Artsy designs and a nod to monogamy.

A Playboy music festival in Hong Kong
Targeting swingers in emerging economies.

Beleson believes the fall of totalitarian and authoritarian regimes around the world augurs well for *Playboy*. The newest foreign-licensed editions of the magazine—there are 15 in all—are in Czechoslovakia, Hungary and Taiwan. A Polish edition is in the works. *Playboy*'s German edition sprang quickly through the breach in the Wall with the first East German Playmate, Anja Kossak, and a pictorial on the Girls of Friedrichstadtpalast, in East Berlin.

This year a Playboy licensee is opening 20 sportswear boutiques in mainland Chinese stores run by the government. The boutiques will feature outerwear, jogging suits, jeans, even dress shirts, pinstripe suits and attaché cases with the rabbit logo featured proudly above the lock. Last fall Playboy sponsored a benefit in Hong Kong for victims of China's Jiangsu flood, pulling in some of the region's biggest television and pop music stars. A current Chinese-language TV commercial airing in Hong Kong—Playboy's first TV commercial for products—ends with the flourish, "Playboy: Always start from now."

Playboy has already started producing TV programming for Western Europe, where a greater tolerance for nudity makes a steamy pilot series like Playboy's *Eden* acceptable. Next it plans to expand its Playboy Jazz Festival, an annual event in Los Angeles for the last 13 years. Playboy is set to sign a contract with Sony/Pace, a concert organizer, for about 20 jazz festivals around the world over the next five years. Playboy will get a piece of the revenues. The likeliest venues are Japan, where Playboy held its first international festival last year, and Germany. Says Beleson, "I'd love to do one in Lithuania."

How far can Christie Hefner take this updated version of her dad's frolicsome vision? She won't put a limit on it, but she's thinking big. Says Hefner *fille:* "It's the idea of an adult Disney—we can spin off everything." –J.L.

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ONE OF THE MOST IMPORTANT ATHLETIC COMPETITIONS ANYWHERE has no losers. It's called Special Olympics. Every year, some 24,500 athletes with mental retardation compete in the California Special Olympics. These Special Olympians strive for much more than ribbons and medals. They're experiencing independence. They're developing confidence. And they're challenging their own limitations.

"BEFORE they even FINISH a race, they've WON MY heart."

BETH HENNING
California Special Olympics volunteer

Best of all, they're all winners. But ask any of the 30,000 Special Olympics volunteers and they'll say they're big winners, too.

"It's almost impossible to put into words the joy you feel," says Beth Henning. "There's a sense of closeness being with these athletes. I was just swept away with happiness."

Beth volunteered for the first time two years ago. And she was one of the first to sign up again this year. She couldn't help being moved by the joy, pride and love so evident during the Games.

Volunteers serve as coaches, keep times and scores, hand out awards and greet every single competitor at the finish line.

With a handshake, a hug or a high-five.

This is a moment everyone remembers long after the day has ended.

We're proud that Beth works in the Market Research Department of our Lexus division.

She's one of the many Toyota people who give their time and affection to Special Olympics.

And to these athletes, even a little of someone's time and affection can mean the difference between just running a race and breaking through barriers.

TOYOTA

INVESTING IN THE INDIVIDUAL

The information age is burying business in information. To the rescue come firms like Verity, with systems for targeted text retrieval.

Haystack searching

By David Churbuck

YOU CAN BLAME George Boole, the 19th-century logician, for the frustration computer users suffer trying to extract the perfect piece of information from a database of documents.

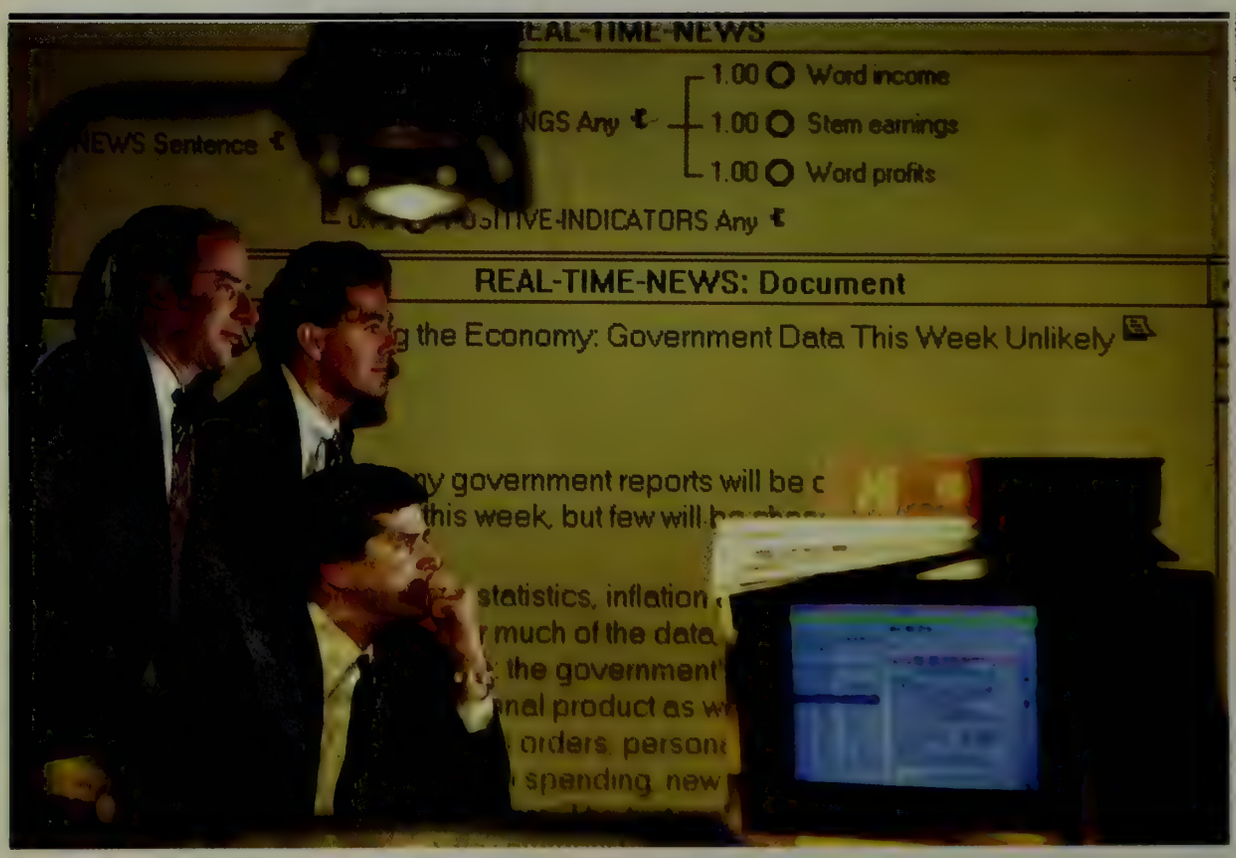
Boolean logic, which frames queries with ORs and ANDs, is fine if the document sought can be precisely targeted by key words, dates or places of publication. But often it can't be.

Let's suppose that you want to assemble a folder of newspaper and magazine articles addressing George Bush's reelection prospects. Too restrictive a search may miss important articles. If you limit the retrieval to items that mention both the President and "reelection," for example, you will miss the ones that talk about his popularity and the coming election but don't contain the word "reelection." Too broad a query also gives useless results. Ask for all items containing "George Bush OR President Bush" and one popular news retrieval service responds that there are 1,866,525 selections.

The answer to this needle-in-the-haystack problem is intelligent text retrieval, software that can combine the raw power of a computer shuffling through tens of millions of documents with the common sense that a human researcher would bring to the problem. Most text retrieval being done today is still of the literal-minded, Boolean variety. But as intelligent searching systems become more powerful, they could expand the market considerably, from one where legal, academic and scientific users predominate to one where corporations routinely search published documents to find out more about their competitors and customers. Analyst Ann Palermo of International Data Corp. projects that the market for retrieval software will quadruple by 1995, to $400 million a year.

Among the players in the smart searching business are Fulcrum, an Ottawa company that sells text retrieval software to other software and hardware companies, and Verity Inc., a Mountain View, Calif. company that has a license to commercialize some of Advanced Decision Systems Research's techniques. Verity has its roots in Advanced Decision, now a subsidiary of management consultants Booz, Allen & Hamilton, which contracts with the government.

Clifford Reid, the 33-year-old MIT



Robert Holmgren

Verity President Michael Pliner with vice presidents Clifford Reid and Robert Williams **Their software turns computers into high-speed reference librarians.**

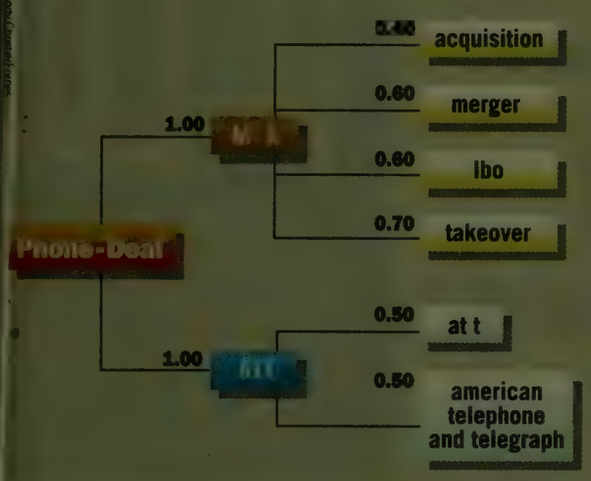
Fuzzy retrieval

Classic text searching is very rigid in its Boolean OR and AND logic. Verity's Topic software, in contrast, allows a researcher to hint around about his topic of interest and fetch documents that merely come close. The software is a descendant of the "fuzzy logic" school of artificial intelligence.

The drawback to Topic is that it demands more mental effort on the part of the user. But, having drafted a query on a particular subject, the user can apply it again and again—say, to each day's wire service stories.

In the example below, a stock analyst needs a system for retrieving items relating to corporate takeovers by AT&T. He composes a query he calls "Phone-Deal." The query branches off into two subtopics. The first lists words suggestive of corporate dealmaking; the second, the different ways AT&T could be represented in news articles.

The results of this search range from an item about Teradata's second-quarter results that describes AT&T's purchase of that company to an item mentioning AT&T and an "acquisition"—a word that turns out to refer to a government purchasing program.



Score	Headline
0.88	Teradata Reports Second-Quarter Results
0.80	Firms Dispute FCC Approval of Bell/Metro Merger
0.80	NCR Sales Channels Now Marketing the StarServer
0.80	AT&T Reports Earnings
0.75	AT&T Unit Unveils High-Speed Transmission Technology
0.60	BellSouth Reports 1991 Results
0.50	AT&T Waives Sign-Up Fee For Reach Out Ohio Plans
0.40	Pentagon Extends CHAMPUS Contract; Re-Bid Anticipated

and Harvard Business School graduate who founded Verity in 1988, calls his firm's approach "conceptual searching." Verity is aiming its Topic software not at occasional users of the sort who might call up Dialog or Dow Jones News Retrieval when they visit a library, but rather at corporations making the same sorts of inquiries over and over. Example: a pharmaceutical company tracking adverse reactions to its products through several databases connected over a local area network. One database would hold Federal Drug Administration reports on the drugs, another internal lab reports and another communications from physicians noting reactions.

Topic takes advantage of the repetitiveness of queries by picking the user's brain for information about the subjects that are relevant and their relation to one another. An expert familiar with the subject of the search assigns weights to search terms, then composes a sample query on adverse reactions that would link together terms that might be germane. Whenever a person needed to research the subject of adverse reactions, he would run the all-purpose query in conjunction with the name of a specific drug.

Verity's customers include the White House, which uses it to route wire service reports to the appropriate staffers; Bankers Trust, which uses it to study competitors; and the Defense Department agency charged with ensuring that sensitive or dangerous technology isn't shipped to the wrong hands. "We have a large volume of data that needs to be sifted through to track those people who may be shipping restricted technology to the bad guys," says this agency's Colonel Francis Wilson. "We just can't do that in a timely fashion by having analysts go through it. With Topic, we can filter the information based on parameters that set the importance of certain terms."

Reid explains: "In a Boolean system you issue a query and in essence segment the database into two sets, those documents that match and those that don't. Our system establishes another set, the set that broadly includes everything you might be interested in, with the system determining the degree to which the document is in your set."

Like other retrieval systems being proposed in academia or developed by commercial firms, Verity's can rank retrieved documents in importance. "Topic is like telling the researcher to give you everything on a subject but put the good stuff on top," says Robert Williams, vice president of marketing at Verity.

Topic can also make connections between documents that fit the user's query and loosely related documents. Says Williams: "Often the most interesting result of a search isn't finding the right document but finding 12 that are related in an interesting way, inspiring a point of view that you hadn't thought of before."

That's getting more sophisticated, but until smarter systems such as Topic become more popular, computers will still have a way of constantly reminding the user that they are just computers. When Reid used the old-fashioned technique to query a database for articles about earthquakes, he got back a lot of irrelevant baseball stories. The search program had concluded from the many mentions of the interrupted World Series game in stories about the 1988 San Francisco quake that the Oakland A's and the San Francisco Giants had some causal connection to the subject.

So maybe machines can never function as good researchers without outside help from humans. But, given the huge volume of text to be searched, neither can humans function without the machines. ■

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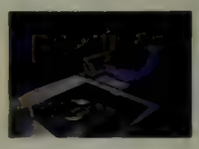

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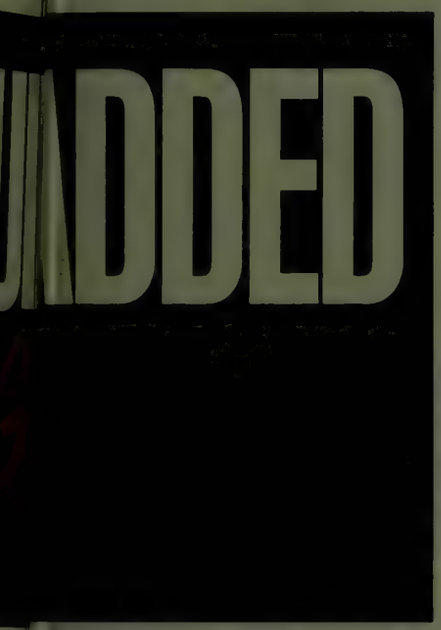

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The coming generations of chips must be made in factories that are nearly perfectly clean. Are the U.S. manufacturers up to the challenge?

Cleanliness is next to competitiveness

By Julie Pitta

IF THE JAPANESE semiconductor firms have excelled at mass manufacturing techniques, their U.S. competitors have excelled at design skills. Thus it is that while Japan dominates markets for commodity chips like dynamic random access memories, the U.S. is ahead in chips demanding design ingenuity—namely, microprocessors. But U.S. chipmakers are now finding that, to remain competitive, they must solve one very knotty manufacturing problem: air purity. Microscopic dirt particles present in a fabrication line can destroy the ever more elegant chips coming out of it.

By the end of the decade, it is likely that the electronic components etched onto silicon chips will shrink to a width of less than 0.2 microns. That is 1/5000 of a millimeter, and a third the width of circuit lines in today's chips.

"We used to speak in terms of a human hair for comparison," says Eugene Feit, director of contamination-free manufacturing at Sematech, the consortium of U.S. chipmakers chartered to improve semiconductor manufacturing techniques. "Now we're talking about molecules on a human hair."

The delicacy of these chips of the future will cause semiconductor manufacturers to worry about dirt particles the size of 0.01 microns. Such particles are far too small for the human eye to detect, but to a 0.2-micron wire they are the equivalent of a boulder on the highway. A Class 1 clean room, the condition under which most chips are fabricated today, allows, per cubic foot of air, just one particle more than 0.5 microns wide. A human being typically sheds about 15,000 to 20,000 particles that size per minute while resting.

In the U.S., creating Class 1 conditions is a challenge. But the Japanese have mastered that and are moving ahead rapidly. Tadahiro Ohmi, a professor at Tohoku University in the city of Sendai, north of Tokyo, presides over an experimental clean room said to contain only 1 particle per 350,000 cubic feet of air.

How do you build a practical fabrication line as clean as that? One way is to replace the workers with robots, a technique that comes naturally to the Japanese. "It defeats the purpose to have people in a plant," says Andrew Arata, quality director for Toshiba America's Microelectronics Center in Sunnyvale, Calif.

The Americans are learning. At Sematech, Eugene Feit's team is looking at closely grouping pieces of machinery so that a central robot can move wafers from one process chamber to the next without going very far. "The shorter the distance the wafers are being moved, the less chance that there'll be [mechanical] wear and [resulting stray] particles," Feit says.

Care also must be taken that the chemicals used begin and remain pure. "What's not understood enough is what's happening around the equipment," says Pallab Chatterjee, a vice president at Texas Instruments. "Even though a gas or liquid may start out pure, there can be changes as they travel through the delivery system."

If robots are going to be doing the work, why not just do all the manufacturing in a vacuum? Answer: Maintaining a factory-wide vacuum would simply cost too much. In a compromise between cost and cleanliness, IBM is experimenting with vacuuming away particles from the air immediately surrounding the silicon wafer as it is being processed.

Clean Intel worker
Without a suit, a human would shed 14,999 too many particles.

A Sunnyvale, Calif. startup, High Yield Technology, has developed a particle monitor that can be built into chip fabrication equipment. The device has been purchased by IBM, Intel and Motorola as well as by leading Japanese chipmakers.

The consensus is that nearly perfect cleanliness can be achieved, but at a price. Chip factories are already dauntingly expensive. Motorola, for instance, spent $650 million to build a Class 1 factory a year ago in Austin, Tex. The Japanese chipmakers have shown that they will invest whatever is necessary to produce the most advanced chips. Will the U.S. companies be able to keep up?

American Power Conversion is cleaning up on the computer networking boom—the low-tech way.

When the lights go out

By David Churbuck

THREE Massachusetts Institute of Technology engineering graduates founded American Power Conversion in 1981 to make solar power products. But the idea flopped and the company nearly went under. Then the company went into the mundane business of making lead batteries—specifically, batteries to back up personal computers, whose precious data can be lost in a momentary blackout or power surge.

The company's owners could scarcely have known what a gold mine they had stumbled onto. Value Line estimates that American Power, which went public in 1988, netted $15 million on $91 million in sales last year. The company's 38% average return on equity over the last five years ranks it near the top of FORBES' list of the country's 200 best small companies (FORBES, *Nov. 11, 1991*).

American Power's Rodger Dowdell Jr.
Smart batteries, smart factory.

American Power Conversion had several things going for it. The backup battery market, though lucrative, is small enough not to have attracted any giant computer firms, and the backup power supplies have electronic circuitry in them—meaning not any battery company could waltz into the business. Finally, Rodger Dowdell Jr., who took over as chief executive in 1985, knows a thing or two about efficient manufacturing.

Dowdell moved the company from its expensive quarters on Massachusetts' Route 128 to West Kingston, R.I., where tax incentives, cheap real estate and skilled labor enabled him to offer some of the cheapest backup power supplies on the market. At American Power's spartan headquarters, no one has a secretary. Papers are stacked on floors. The lobby is two couches and a display of the company's products.

But on the company's manufacturing system, nothing has been stinted. The assembly line is mostly automated, with machines placing and soldering components onto circuit boards before feeding the boards to human quality-control testers.

The company's products range in price from a $2,000 power supply designed to protect minicomputers and telephone switchboards down to a $169 backup for a single desktop personal computer. American Power Conversion says it has 30% of the market for backup power supplies for desktop computers.

Battery backups are not power replacements. They won't allow a computer to keep running for more than a few minutes when the power fails. But they do provide enough emergency power for users to save their work on a disk before the computer faints.

The technology inside a power supply consists of a lead-acid battery, some circuitry designed to even out surges and lulls in the power, and a switch that detects a lapse in incoming power and automatically turns to the battery for backup. The company has added value to this fairly simple technology by developing software that analyzes the quality of electricity and gives computer managers a record of power problems.

American Power first marketed its products to customers who manage network servers—the large PCs that handle the traffic of up to 100 connected computers. Smart move. Networking technology has proved to be surprisingly recession-proof as companies try to milk the most out of the computers that they have by tying them together and doing away with expensive mainframe and minicomputer systems.

Dowdell sees growth ahead. Many electric utilities, pressed to cut their capital budgets, are delivering less reliable electricity. And financially strained corporate data processing departments are shifting from mainframe computers that would be out of American Power's range to networks of desktop machines that are well within it. Eastern Europe and Third World companies are another hot market opportunity, as power supplies in those areas are notoriously unreliable.

"On a unit-per-GNP basis," says Dowdell, "Hungary is our biggest market."

Dowdell adds: "One of our most popular products cost $799 in 1986. Today that same product costs $349. That wouldn't be very remarkable if semiconductors were the major cost, but in our case it's copper, sheet metal and batteries. We're just getting better about engineering and building these things, to the point where we export them to Asia. We're very proud of that."

Here's something else to be proud of: In the four years since American Power Conversion went public, its stock has climbed better than thirty-fold. From lead batteries? Who'd have thunk it?

100 times earnings

COMMENTARY BY RICHARD A. SHAFFER

Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter.*

TECHNOLOGY STOCKS are like fighter jets. The faster they go, the faster they are able to go because of the greater amount of air being rammed into their engines. Until they crash, that is.

This comes to mind in a wild bull market where at least a dozen computer stocks are trading at 100 times earnings or better. The higher these stocks go, it seems, the more investors want them. The P/E 100 Club includes such companies as Bachman Information, Oracle, PictureTel, Retix, Tellabs and Wellfleet Communications. Oracle is on the list because of a dip in earnings to near the break-even point, but the others are simply hot stocks. In recent weeks another dozen or so have been flirting with three-digit multiples, including Chipcom, Compression Labs, Parametric Technology, Platinum Technology, Sybase and Symantec.

There's a case to be made, if not for huge multiples, at least for rising ones. For the last eight years the prices of technology and other small-capitalization issues have failed to keep pace with the shares of large companies. Why shouldn't they catch up?

With interest rates falling to 20-year lows, investors are buying stocks with money that had been in bonds, savings accounts and money market funds. This surge of liquidity has pushed up the multiples for companies of all kinds, and the more rapid the growth of a company, the greater the multiple it would seem to deserve. The P/E for such a stodgy group of companies as the DJI has more than doubled in the last year, rising from 13 to 32. Part of this change is a reflection of a depression in earnings from write-offs, but a large part is market exuberance at a time of weak operating results. Under the circumstances, shouldn't the multiples on high-growth companies at least keep pace?

Since the beginning of 1991, the P/E of design-automation software publisher Parametric Technology has more than doubled, rising from 42 to 98. Although that's twice the P/E of the typical software company, Parametric is four times as profitable (in terms of net as a percent of sales). PictureTel's P/E is twice that of the average communications equipment maker, but its revenues are rising six times as rapidly.

In this recession small-cap high-technology companies seem to be doing better than large-cap, low-technology companies. According to the Institutional Brokers Estimate System, analysts are predicting that earnings will more than double in 1992 for companies with capitalizations of less than $500 million. That's five times the earnings growth expected for companies with capitalizations of more than $2 billion.

But do such expectations mean that the small-cap companies should have P/Es that are so much greater than those of large-cap companies?

Like PictureTel and Parametric, most of the high-multiple companies on my little list are excellent. That still leaves ample room for concern about the high altitudes their stock prices have attained.

Consider PictureTel. After decades of false promises and disappointed hopes, video teleconferencing seems at last to be on the verge of the popularity that its advocates have long foreseen. As a consequence, PictureTel's revenues doubled in the last 12 months, to $63 million. Among the several contenders for video conferencing on the desktop, PictureTel would seem to have an edge, given its close relation with Intel and IBM. The company seemed to be foundering a few years ago, and the stock was at 3. But PictureTel is hot now. The shares recently traded at 47.

All that is missing from this happy picture is earnings to match the stock price. For 1991, security analyst estimates average out to 40 cents a share. Let's assume all goes well for PictureTel and that its earnings double annually for the next three years. At today's prices, it is trading at almost 20 times these hypothetical 1994 earnings. What happens if PictureTel's performance falls short of expectations? The stock will fall out of the sky.

Or look at nView, perhaps the industry's best-performing new issue of 1991. In the last eight months the company's market value has risen from $22 million to $120 million. The P/E is 85. Suppose the company's technology supplier, Sharp of Japan, begins to compete with it in liquid-crystal displays, as some expect, and that, as a result, nView's earnings growth slows or stops. The stock will fall out of the sky.

Whether the disaster first occurs with nView, or PictureTel or a company I haven't mentioned, it could happen in a way to send investors fleeing en masse from little computer companies. We saw such a flight from technology beginning in the summer of 1983. Just before that high point, people were willing to pay 60 or 90 times earnings for any number of small computer and electronics outfits. After the crash, they didn't want the stocks at 20 times earnings.

The victims of the technology collapse that began in mid-1983 (and lasted for years) weren't only the latecomers to the stocks. They were also all the computer startups that, for a long time afterward, had a devil of a time raising the money they needed for growth. In sum, if I were running one of the companies in the P/E 100 Club, I just might look on the market's mania as a mixed blessing. ■

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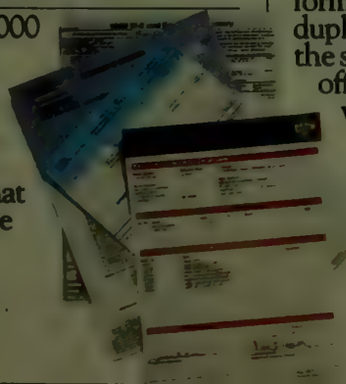

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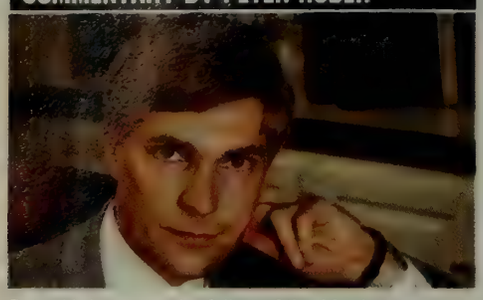
A woman's right to choose

COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of the just published *Galileo's Revenge: Junk Science in the Courtroom* (Basic Books).

THE REMARKABLE thing about the silicone breast implant flap is not who's screaming, but who isn't.

Whose voice is missing from this latest junk-science fracas? Look at it this way. A woman is seated in the privacy of her doctor's office. She's discussing a matter of intensely personal interest. It affects both her mental and her physical well-being. Some women even believe it affects their chance to snare mates and bear children. Pretty personal stuff, I'd say. And the Food & Drug Administration wants to horn in.

So where are the pro-choicers to protest the FDA's intrusion? Where's the American Civil Liberties Union? Where are the ACT-UPers, who've been denouncing the FDA logjam on AIDS drugs? There's a principle at stake here, but the people with the greatest need to affirm it aren't saying anything.

The smartest thing the right-to-life forces could do right now would be to seize on the pro-choice groups' silence. Find an appropriate front, challenge the FDA's ban on silicone breast implants all the way to the Supreme Court—and aim to lose every step of the way. Forget privacy—a ban on implants is in the public interest. And incidentally, if the state can regulate whether or not a woman can put a bag of silicone into her chest, it obviously can also regulate whether she can put an aspirator into her uterus or a contraceptive pill into her mouth.

But as sometimes happens when Big Brother decides to protect little sister, without the aspirator you may get the coat hanger. There are 170,000 new cases of breast cancer every year. The possibility of breast reconstruction helps some women screw up their courage to get regular screenings and, if they feel it is necessary, undergo reconstructive surgery. The available alternatives—saline implants or a woman's own tissues—are either much more expensive or unsuitable for some women or some types of repair.

Some 30,000 women a year are seeking some kind of reconstruction after surgery. Now, thanks to Washington's fringe-science vigilantes, many women believe that the only safe end of breast cancer is irreparable mutilation. Do you suppose that 1 in 100 breast cancer victims will find that prospect too dismal to bear, and so wait an extra six months before having that lump checked out? Or might it be 1 in 10—17,000 women a year, perhaps? I don't know; no one does. But it's a pretty safe bet that some real women are going to die because of the choice they just lost to hand-wringing at the FDA.

A whole lot more women, in fact, than are ever likely to be killed by silicone itself. The FDA knows this. Norplant, the new contraceptive that the FDA recently approved with much fanfare, is delivered from a silicone implant. Silicone is used to lubricate syringes: A diabetic can inject a breast's worth of silicone during her lifetime. Silicone is used in intravenous tubing and in shunts for delivering chemotherapy. Some 30,000 American men have silicone-based testicular implants. Science can never prove negative propositions absolutely. But if silicone presents any serious chemical hazards to the human body they should already be apparent. The fact is, they aren't. We are dealing here not with science but with Washington's policy pundits and publicists who prosper by making mountains out of molehills.

All of this should be largely beside the point, of course. Even if silicone presents real dangers, it obviously also offers some real benefits, unless we are to believe that every woman who ever sought a breast implant was a fool or a dupe. That's pretty much what we're being told, however. The entire debate has revolved around a vision of vain, foolish, helpless women—women at the mercy of manipulative doctors and conspiring chemical companies, women more like children than adults, women incapable of making intelligent, individual choices for themselves. Given all the recent publicity, no one can even plausibly claim that a woman who now opts in favor of a silicone implant has not been fully informed of the risks. If anything, she has been overinformed. The choice should now be hers.

Feminists have been making a lot of bad tactical calls recently, but the position they have taken on breast implants is their worst yet. When it came down to defending the individual woman's right to choose, or denouncing adolescent male conceptions of female beauty, many feminists preferred to denounce. With or without silicone on the market, some men will always be adolescents, and some women will always cater to their tastes. But when you compromise on the principle of personal autonomy—of freedom of individual choice—you are soon left with all compromise and no principle.

If the pro-choicers can't win this one—don't even care to win it, in fact—they can't win anything. A breast implant, safe or dangerous, intact or ruptured, in the first, second or third trimester after insertion, is still just a bag of plastic. When a woman stands in her doctor's office discussing a breast implant, there's only one body and one life involved: her own. And who gets to say how that body and life should be managed? David Kessler of the FDA, that's who. ■

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If your idea of a health spa includes pampering, saunas and cuisine minceur, Malibu's Ashram is definitely not for you.

Boot camp by the sea

By Dana Wechsler Linden

I KNEW I was in trouble as soon as we arrived at the Ashram, a health spa in the hills above Malibu, Calif. The proprietor asked me how solid my marriage was. What did she mean? I had come to the Ashram with my husband to lose a few pounds, tone up my muscles some, order up massages and take some moderate exercise. What did any of that have to do with matrimonial health?

A painful week later I understood fully what the woman meant. About the only couple who could survive a week at the Ashram without stress would be a masochist married to a sadist.

The Ashram believes in extremes, as does my husband. Whereas Tucson's Canyon Ranch and most other spas offer exercise and healthy eating in a luxurious environment where guests can more or less participate as they please, the Ashram is more like Marine Corps boot camp—although the food is more plentiful at Parris Island.

It is known among spa cognoscenti as the place where you shed the most pounds and trim off the most inches in the least amount of time. Lots of celebrities—including Shirley MacLaine, Dan Aykroyd and Jane Fonda—swear by the place. When you leave the Ashram at the end of a week, clutching the coveted "I Survived the Ashram" T shirt, you're supposed to have a triumphant sense that there's nothing you're not physically capable of doing. Most people do leave with that kind of high.

My husband did. I left grateful to still be alive.

Ashram guests hiking in the Santa Monica Mountains
Homeric views, Spartan fare and California prices.

The Ashram (818-222-6900) is in the small town of Calabasas, about 20 miles east of Malibu and tucked in a canyon of the spectacular Santa Monica Mountains. If the views of the Pacific are Homeric, the Ashram's facilities and food are Spartan—and the cost is contemporary southern Californian: $2,000 per person for the week. There's no bar, no coffee shop, no herbal wraps, no pedicures, no entertainment. Not even a candy machine.

The most memorable thing about the Ashram's food is that so little of it is served. None of those low-cal treats that are featured at other spas, like cannelloni made with low-fat milk. Here, it's broccoli and bean sprouts.

A week at the Ashram starts when you drive up to a seemingly ordinary five-bedroom house built in 1974 by Anne-Marie Bennstrom, now 62, a Swedish-born fitness fanatic who is the widow of Robert Prescott, founder of Flying Tiger airlines. She once managed the popular Golden Door spa in Escondido, Calif.

The regimen begins on Sunday afternoon at 2. Guests promptly strip down to their bare essentials for private body consultations with Anne-Marie. Garbed in a short tunic and tights and looking like central casting's idea of a dominatrix, she offers reassurance to those who are noticeably nervous about the week to come. "Don't worry," she told me, "we're going to lavish you with love, baby." (I later learned that Anne-Marie, an astute judge of character, chose a different script for my husband. "We're going to make you suffer," she goaded him. "Great," he replied, "that's what I'm here for.")

After weighing in, you don your uniform: Ashram T shirt, red sweatpants, white sweatshirt. And then, within an hour of arriving, you're off on the first of what will be twice-daily hikes in the surrounding mountains.

That first hike is a sample of what's to come—two hours of scrambling up steep mountain trails. The frequent 30-degree inclines feel like more than your quadriceps can bear. You wheeze and pant for breath. You want to stop, but your instructor, a lanky 55-year-old Norwegian woman named Tone (pronounced TO-nah), is

emarkably unsympathetic. Easy for her—she's a former competitive speed skater, with legs and arms like structural steel. My husband bolts to the lead. I struggle far behind.

The next day, my first full day at the Ashram, starts when an instructor knocks on our bedroom door at 6 a.m. I stumble up a hill to a geodesic dome, hung with dozens of crystals, those New Age icons, for an hour of yoga. Then comes breakfast: a goblet of fresh-squeezed orange juice and a potassium pill. Period.

On Monday the morning hike is the Fire Trail, a dreaded 40-degree incline. "Take one step at a time, and don't look up," Tone commands.

Each morning hike is between 5 and 20 miles—when the terrain is gentler, the distance is longer. Exhausted and starving, you return to the Ashram at around 11:30 for a snack. Every day it's exactly the same fare: carrot sticks, cherry tomatoes and other raw vegetables, plus lots of water. But you're so food-deprived that the stuff tastes as good as foie gras.

After 15 or 20 minutes it's time for weight-training class. This is taught by Maximilian, a 5-foot-tall bodybuilder who used to hang out regularly at Los Angeles' Muscle Beach. Maxie is now 80 but he still sports quads resembling gnarled oak. "Make it burn, baby," Maxie chants. "Make it burn."

Then comes an hour of water aerobics, followed by the most pleasurable part of the day, your massage. For 50 minutes of bliss, your aching muscles relax and you space out.

By this point it's about 2:30. Time for lunch, which consists of a small plate of salad. One day it was chopped beets, carrots and alfalfa sprouts over a bed of lettuce. Many guests eat with chopsticks, to make the meal last longer.

After "lunch" comes calisthenics, and after that, the afternoon hike. Then another hour of yoga and, finally, dinner. The best dinner of the week was a bowl of black bean soup, served with a cracker. *A* cracker. If you plead starvation, the cook grudgingly hands you another. Oliver Twist would feel right at home here.

You leave the dinner table and sprawl with other guests on the living room sofa, too tired to move or talk. By 9 o'clock, virtually everyone is comatose in bed.

Does this sound like a hellish way to spend $2,000? For the first few days it was, when the aches and pains seemed too much to bear. But by Thursday, most guests began to feel pretty good about themselves. I took the mountain paths in long, easy strides. The weights were lighter. My watch strap was looser. I prayed I was losing weight in more important places than my wrists.

Not to worry. Given the Ashram's food portions, weight loss is unavoidable. Combine a diet of around 600 calories a day with exercise requiring some 3,000, and about a pound a day evaporates. I lost seven pounds. (Warning: Followed for very long, such a regimen is unhealthy. On departure, instructors caution the guests not to try to keep it up, not that anyone in his or her right mind would.)

As in boot camp, so at the Ashram: Slackers get no sympathy and little respect. The instructors have their ways—sometimes overbearing, sometimes patronizing—of keeping guests from skipping hikes or classes. I know. I tried.

Everything at the Ashram is family-style, including accommodations. Everyone, including Jane Fonda, shares a room; there are no private baths. Sometimes there's a line for the showers.

So ask yourself. Are you a compulsive achiever, a member of the no-pain-no-gain school of life, like my husband? If so, you'll probably love the Ashram. About half of the ten guests the Ashram can accommodate for each one-week program are repeat customers.

On the other hand, if you're less compulsive and more attracted to pleasure than pain, head straight for Tucson's Canyon Ranch (602-749-9000). That's where I'll be going next time. ■

Breakfast—a glass of juice and a potassium pill

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Yoga is also part of the program

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SWITZERLAND SCOTLAND ENGLAND GERMANY

When the art market caught cold last year, prints got pneumonia. Don't expect an early recovery.

Tides of prints

By Christie Brown

THE ECONOMY may not be in free-fall, but the market for prints is. A year ago Richard Wier, a retired IBM salesman, saw a Richard Serra print he liked, priced at $10,000. Wier passed then—but recently bought it at Chicago's van Straaten Gallery for $1,000.

Robert Rauschenberg's famous 1967 print "Booster" has dropped from $165,000 in 1990 to $20,000 today. (Original cost of the 38-copy edition: $100 each.) Jasper John 1980 abstract print "Usuyuki, which shot from its initial price $5,000 to $93,500 at auction i 1989, fetched only $26,400 at Sothe by's in November. Prints by Robe Motherwell, David Hockney, Ro Lichtenstein and Frank Stella are a selling at a fraction of what they com manded a year or two ago.

Why the collapse? Some recent his tory is in order. Before the 1950s fe individual collectors would touc prints. Only high-quality colored Eu ropean lithographs by such estab lished masters as Picasso and Chagal found serious buyers.

But in the late 1950s a handful o struggling modern artists begar churning out inexpensive lithographs—not to cash in on existing fame, but to help create it.

The catalyst was Tatyana Grosman, a Russian war refugee, who had found some old lithographic stones outside her house in West Islip, N.Y. She started a printing company, Universal Limited Art Editions, in her garage and encouraged young local painters like Larry Rivers, Johns and Rauschenberg to create prints. Their art was new, exciting and fresh—and attracted young collectors who couldn't afford their originals.

Soon after, a young printer named June Wayne started a similar press, Tamarind Lithography Workshop, in Los Angeles. She also began making prints of works by such up-and-coming artists as Richard Diebenkorn, Josef Albers and Sam Francis.

Before long, the art world's printing presses were rolling. Big, vivid, contemporary prints soon became a

Christie's

Jasper Johns' 1980 print "Usuyuki"
Auctioned for $93,500 in 1989, it's now $26,400.

Print collector Richard Wier
Snapping at bargain prices.

valid artistic medium that caught the eye of museums, as well as collectors big and small.

And therein lay the seeds of the print market's collapse. As with money, an oversupply debauches value. "The basic thing about prints," counsels Riva Castleman, curator of the print department of New York's Museum of Modern Art, "is that they are a commodity—Jane can have one, and I can have one, too."

As excitement and prices grew, so did fraud. But most damaging of all was the print tax shelter, which first emerged in the late 1970s. The scheme worked something like this: Investors bought the plates that were used to make prints. The image didn't matter. Only a portion of the plates' total assumed value would be paid in cash up front; the remainder was supposed to (but rarely did) come from future sales of everything from prints to scarves to T shirts. The investors were able to claim as tax deductions and credits several times the amount of their upfront investment, thereby immediately making money in the form of taxes not paid. This game accelerated the art presses.

The IRS finally started cracking down on the print tax shelters in the early 1980s, and the market soured. But by the mid-1980s demand was rising again. This time it wasn't individuals who were the biggest buyers but corporations, law firms, banks and other institutions with acres of bare new walls to decorate. Abstract prints were colorful (and sometimes color-coordinated with carpeting and other furnishings), noncontroversial, relatively inexpensive and could be sold as "investments." Pretty soon Japanese buyers jumped into the market and prices rocketed.

"From 1988 to 1989 the price of a print could double in a month," recalls Ken Tyler, owner of Mount Kisco, N.Y.'s Tyler Graphics Ltd., which publishes prints by Hockney, Motherwell and Lichtenstein.

Then the balloon burst. The Japanese backed out and many corporations, faced with budget slashing, not only halted their art-buying sprees but also began to sell off collections.

Collectors like 56-year-old Richard Wier welcome the price collapse. For years he bought prints because he couldn't afford originals. Over 20 years he purchased some 50 prints by contemporary artists such as Johns, Rauschenberg, Beverly Pepper and Frank Stella. "I would far rather have a print by Stella than a painting by Joe Schmoe," says Wier.

By 1988, after spending $24,000 for a Rauschenberg print, Wier was priced out of the market. But now that prices have dropped back to reality, he's buying again.

Also back into prints is Ron Pizzuti, owner of Pizzuti Inc., a real estate developer in Columbus, Ohio. Pizzuti bought his first print, by Karel Appel, at a local gallery in 1976 for $900. "It was $100 down," he says, "and $100 a month."

Pizzuti went on to amass about 200 prints (as well as many paintings and sculptures) until 1983, when he paid his top price, $20,000, for a print by Stella. "That was awfully high for a print," says Pizzuti. "Two years earlier I had paid $28,000 for a Stella *painting*." Having rarely spent more than $5,000 on a print, he stopped buying. Until recently.

If you are interested in getting into the print market, here are some sources:

The *Print Collector's Newsletter*, published bimonthly in New York City, is must reading for collectors (one year: $60). *Gordon's Print Price Annual*, published by Martin Gordon in Naples, Fla., lists recent auction results ($185). The biannual *PrintWorld Directory*, by Selma Smith, tracks gallery prices of over 50,000 prints. ($225. Phone: 800-788-9101.) Christie's and Sotheby's will have contemporary print auctions on May 11 and May 16, respectively.

Christie's

"Booster" by Robert Rauschenberg
From $100 to $165,000 to $20,000.

John Tawgin rejected corporate life to race canoes in Hawaii. It wasn't a bad career move.

Having fun is the best revenge

By Mary Beth Grover

IS YOUR JOB FUN? That's an elusive quality everyone likes to strive for. Yet often people don't find true career happiness until they discover what doesn't work for them. For John Shawn Tawgin what didn't work was any job that involved reporting to someone else.

Tawgin, 46, is now definitely his own boss. He runs his $7 million (sales) John Shawn Productions in Manasquan, N.J., taking pictures of people at amusement parks. But before he got there, there were a few lessons he had to learn along the way.

After earning a master's degree in business from the University of Massachusetts in 1970, Tawgin landed a flashy advertising job at New York's Benton & Bowles. It was something he'd always dreamed of. The son of a banker from blue-collar Jersey City, he was making $13,500 and working on some big-name accounts like Hasbro and General Foods.

It lasted all of 18 months. The problem? Tawgin bristled at authority: "I like to make decisions and I wasn't. The job wasn't any fun."

So in 1972 Tawgin, 26, hung up his suits and bought a ticket to Hawaii. Unemployed but happy, he spent six months racing outrigger canoes, living in Honolulu on his savings.

A job wasn't on his mind when he was strolling through a local mall and passed a photography booth where tourists were posing in period costumes such as Civil War military garb.

Now there's an idea, he thought. Photography had always been a hobby, and he knew he'd need a job at some point. So he started working in the booth for about $3 an hour.

Still an M.B.A. by education, if not attire, he saw the potential for a lucrative little business. The pictures, priced at $7, cost 50 cents and his time to make.

Ken Kerbs

John Tawgin of John Shawn Productions

Are we having fun yet?

After learning the business for six months at his employer's expense, Tawgin flew home to New Jersey and borrowed $500 from his parents for equipment. He started operating out of Cedar Grove, N.J. It was rough going at first. The fake historical pictures didn't go over very well with the resort clientele in the Catskills, the Poconos and the Jersey shore. Resort-goers, often dressed to the nines, weren't exactly gung-ho about changing into old-style clothing. So Tawgin, like countless photographers before him, had to start photographing weddings to pay the rent. "Terrible; hated it," he says. Meanwhile, his parents' loan grew to $20,000.

Then inspiration hit. "Here I was, a marketing guy, and I didn't know what my market was." Why not see his pictures where people were *really* having fun? Tawgin went to Six Flags Great Adventure, the amusement park in Jackson, N.J., and took pictures of thrill-seekers coming down the first steep dip of the log flume ride. He sold them for $2. The park in return for granting Tawgin the right to operate this concession, took 25% of his sales. Bingo. His company moved into the black.

Other accounts followed. Busch Gardens in Tampa, Kings Island in Cincinnati. By 1978 Tawgin had shops in eight parks and was generating over $1 million a year in revenues.

It was too good to be true. That year Cincinnati-based Kings Island and Richmond, Va.-based Kings Dominion amusement parks decided to run their own photo businesses, shutting Tawgin out. That wiped out over a third of his business overnight. "They just threw me out. Said your contract's up, see you later."

So he threw his energies into expanding his product line and adding new accounts. An idea to sell key chain viewers—a slide in a miniature viewer on a key chain—soon became his bestselling product at $5. It cost him $2. "People lined up five deep," says Tawgin. T shirts with air-brushed pictures of rock groups and other designs were also a big hit at up to $26 each.

Meanwhile the Kings Island and Kings Dominion parks found they couldn't run their own photography businesses very profitably, and in 1980 they invited Tawgin back. This time he asked for and got five-year contracts, which were renewed.

Since 1987 sales have more than doubled, to $7 million. Tawgin, now in 15 parks, has 50 full-time and over 600 part-time employees. He doesn't have to answer to anyone. Last year, he says, he took out well over $100,000 in salary.

A sort of modern-day Peter Pan who uses words like "awesome," Tawgin goes roller-blading in Central Park, skiing from his condo in Aspen and sailing from his seaside home in New Jersey. In other words, Tawgin is finally having fun.

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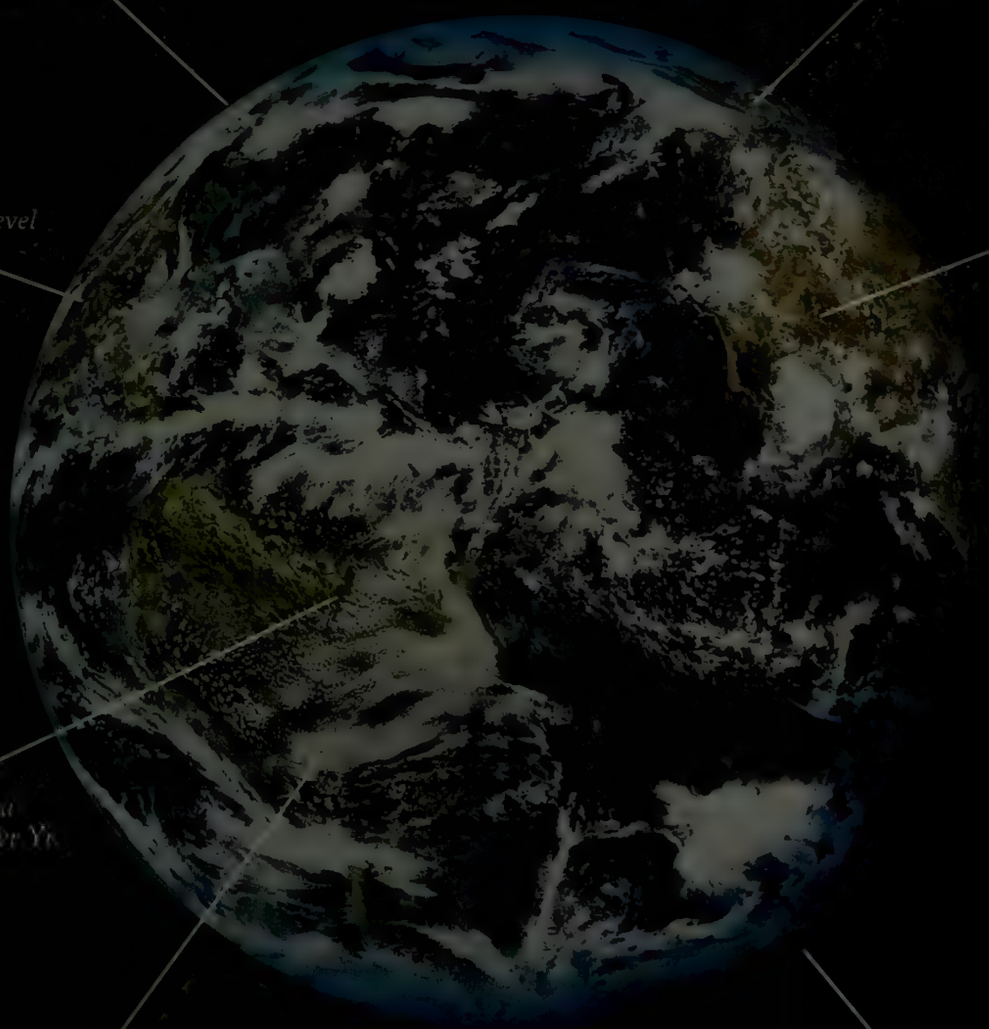

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The accountant as diplomat

THE U.S. has had a budget director since 1921, but only since November has the country also had a chief financial officer. The first is Edward Mazur, controller of the new Office of Federal Financial Management.

Created by the 1990 CFO act to combat fraud, waste, abuse and mismanagement, Mazur's office reports through the Office of Management & Budget (Richard Darman's turf) to the White House. The job description calls for Mazur, 49, to oversee junior financial officers at 23 federal agencies. The goal: to improve internal controls, consolidate hundreds of accounting systems and produce audited financial statements from each agency. "My job," says Mazur, "is to ensure that the agency CFOs are heard."

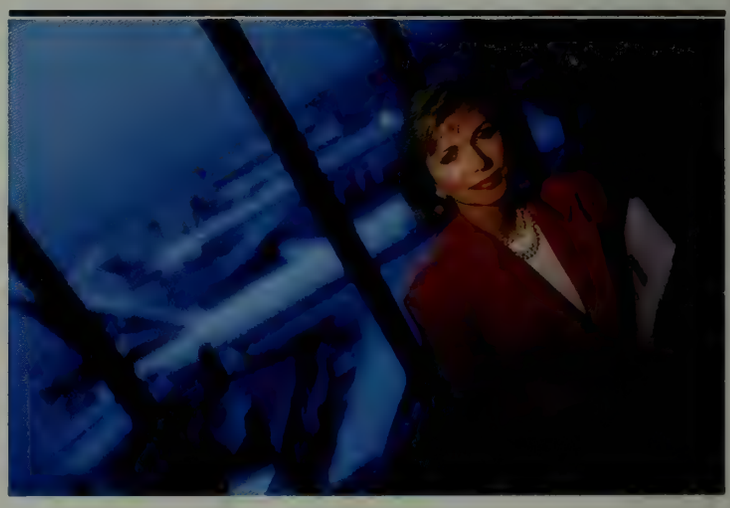
They've already given Mazur quite an earful. Among the problems brought to his attention: anticipated Medicare overpayments of $600 million this year; 79 incompatible accounting systems at Housing & Urban Development; charges of $35 billion in excess inventory at the Defense Department; a billion-dollar-a-year increase in student loan defaults at Education.

With an M.B.A. from Wharton and a stint at Coopers & Lybrand as an audit supervisor, Mazur last worked as comptroller of Virginia. There he automated the state's payroll system, paid 95% of all vendor bills on time and developed a system for tracking the state's fixed assets.

But can he bring information systems and accounting sense to bear on the federal government's sprawling operations? With tough politicians and tens of thousands of bureaucrats standing between him and the taxpayer, Mazur will have to be both brilliant diplomat and competent accountant to succeed.

–WENDY TANAKA

ABOVE:
Federal Controller Edward Mazur
Charged with fighting fraud, waste and mismanagement.



RIGHT:
Deborah Lunn of Airport Channel
Another boost for Ted Turner's CNN.

Crowd-calmer

DEBORAH LUNN knows airports and the people who run them. That's why Ted Turner hired her to run his new network, the Airport Channel.

Lunn's job is to stick TVs in airport waiting areas—gates, baggage claim areas, hotels, anywhere people might mill around for 10 to 30 minutes. The televisions carry a 30-minute loop consisting of live news and features culled from Turner Broadcasting Systems' Cable News Network, and 18 advertising spots.

Lunn promises the airports a cut of the channel's advertising revenues, a 30-second spot each half-hour to tout their facilities, and a "crawl" across the bottom of the screen to announce flight delays and other airport news.

Formerly executive vice president of the Airports Association Council International, a trade group, Lunn, 41, already has TVs up in Dallas-Fort Worth, Miami, Cincinnati, Denver, Minneapolis and Dulles in Washington, D.C. She's in discussion with 12 more U.S. airports and says she has received unsolicited inquiries from airport authorities in Amsterdam, London, Paris, Tokyo and Singapore.

Advertisers seem to like the well-heeled, captive audience. Among Lunn's customers: American Express, AT&T, General Motors, GTE Airfone.

With its revenues now approaching $10 million, Lunn hopes the network will show a profit within two years. But profits may not be the point. Each

Hapag-Lloyd A.G.'s Hans Jakob Kruse
Helping East Germans to see the world.

Airport Channel loop is, after all, a 30-minute advertisement for the CNN logo and service. "We're catching people who may not be in countries or hotels that have CNN," says Lunn. And TBS is keeping one 30-second spot per loop for itself.

What do the viewers think? Some ticket processors report that gates with Airport Channel televisions are unusually peaceful. Perhaps people would rather watch TV than complain about delays. –VICKI CONTAVESPI

Venturing out

IT STARTED with day trips to West Berlin when the Wall came down, but East Germans are getting more adventurous in their outings. "Slowly they are realizing that the airplane is not such a bad vehicle for going places," says Hans Jakob Kruse, chairman of Hamburg's $2.2 billion (revenues) Hapag-Lloyd A.G., a major beneficiary of the trend.

Hapag-Lloyd got its start in 1847 by carrying 220 emigrants from Hamburg to North America aboard the three-masted *Deutschland*. Today the company is best known as one of the world's largest container shippers—number two within Europe.

Jay David Buchsbaum

"The Addams Family" producer, Scott Rudin
"I like not having a boss."

But one-third of its sales still come from moving people. The tourism division—charter planes, a travel agency and a cruise ship—is the firm's fastest-growing business and Germany's largest travel company.

Kruse says the average East German spends a mere $35 a day, including transportation, when traveling. But Hapag-Lloyd is tapping the bigger spenders. Kruse, 62, has opened a travel office in Dresden; his planes are now carrying tourists from Dresden and Leipzig to Spain, Greece and North Africa. "Nothing as exotic as the United States," he chuckles.

Kruse does not expect the standard of living in Central and Eastern Europe to catch up quickly with Western norms. "East Germany will recover within 10 years," he says. "But other Eastern European economies will take 50 years." And the former Soviet republics? "One hundred years, if you're an optimist."

The Saturday matinee kid

SCOTT RUDIN has finally stopped lying about his age. For years, the burly 33-year-old movie producer routinely added five years to his age to boost his credibility with producers and studio heads. Now he has the best credential of all: a hit film, *The Addams Family*. Produced by Rudin for $30 million (excluding promotional costs), the film has already grossed over $100 million at the box office, putting it firmly in the black.

Raised on Long Island, the son of a menswear salesman, Rudin says he spent his paper-route earnings on tickets to Broadway shows. "I was the original Saturday matinee kid," he says. When he was 15, he sent Broadway producer Kermit Bloomgarden *(Equus)* a letter offering to work for free. Bloomgarden took him on—he paid train fare; Rudin answered the phones.

Skipping college, Rudin opened his own casting company at age 18. After filling roles in the Broadway and national companies of *Annie* and *Pippin*, he broke into television with the miniseries *Little Gloria, Happy At Last*. "Believe me," he says, "I never told anyone how old I was."

In 1978, when Rudin was still only 19, *Little Gloria* coproducer Edgar Scherick lured him to Los Angeles. Two jobs later Rudin was head of production for Twentieth Century Fox, overseeing productions ranging from *Raising Arizona* to *Commando*. He broke out on his own as an independent producer in 1988, ultimately setting up shop at Paramount, which covers his overhead in return for first shot at his films.

In December Rudin turned down an offer from Paramount head Brandon Tartikoff to become production chief. "I like not having a boss," he explains. Besides, taking the Paramount job would have meant giving up all financial interest in his current projects. At the top of the list? *Addams Family II*.–LISA GUBERNICK

"First, he breaks his ankle sliding into third at the company picnic. Then his team loses anyway."

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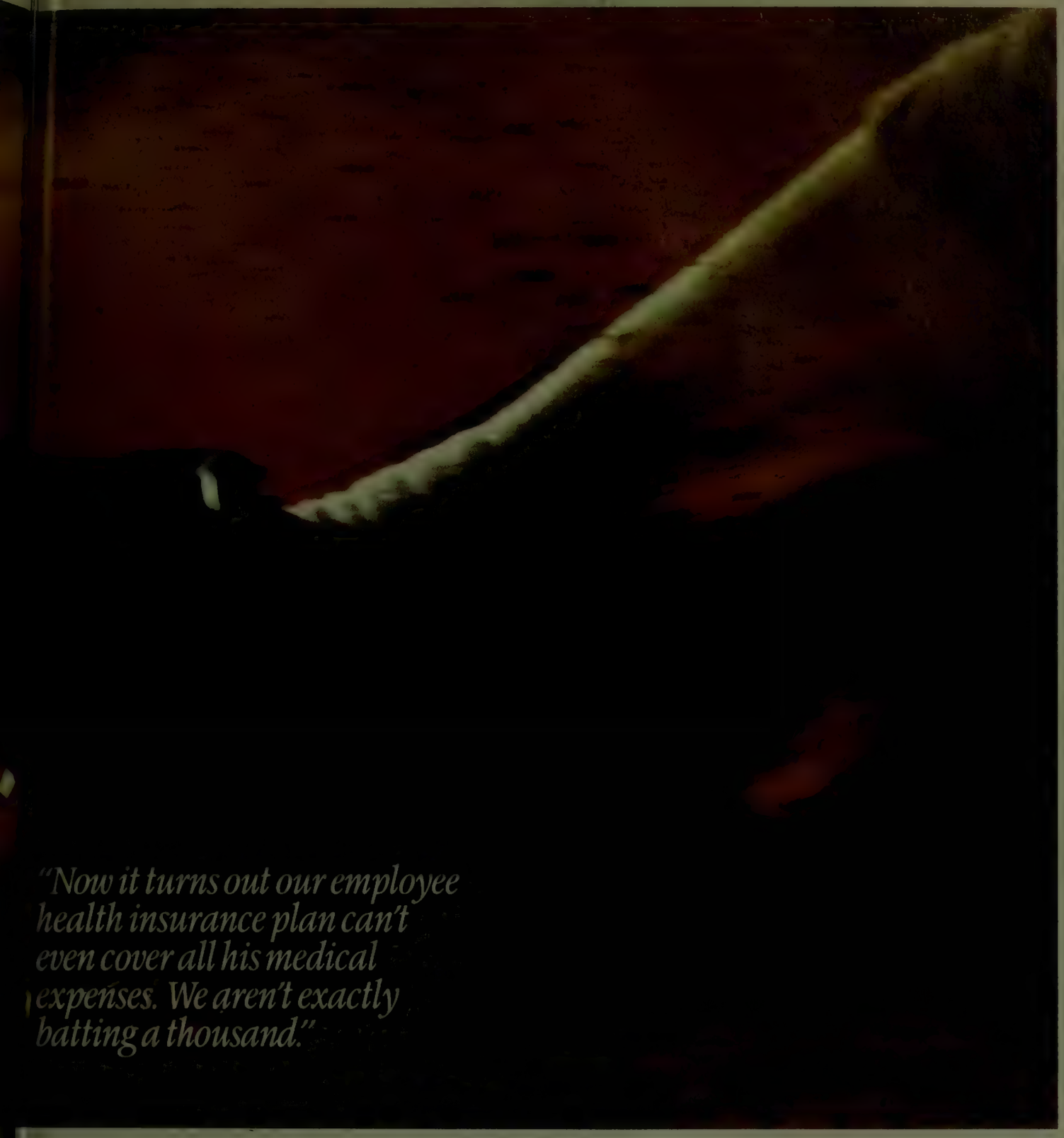

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If you are too timid to dive into the overheated stock market, too unhappy with paltry returns to stay in cash, there is a plausible middle course: a package of bond mutual funds.

Fixed-income strategy for fund buyers

By William Baldwin

BOND FUNDS are attracting two sorts of investors these days. One group consists of timid CD holders. They missed the bull market in stocks and they have no desire to jump in now. Their bank deposits are coming due, and they aren't happy with the low returns banks are offering. Bond funds may offer them a better deal.

In the other camp are former equity investors who simply think stocks are overpriced at 27 times trailing 12-month earnings. They hear a chorus of bulls explaining that with money rates low and no place else for investors to go with their money, the stock market can only go up. These contrarians are attracted to bond funds now as a temporary holding. They will emerge to buy stocks when stocks drop to a more normal 12 times earnings.

If you find yourself in either camp, this primer on fixed-income investing via mutual funds may be of interest. There are many circumstances in which investors, even well-heeled ones, do better buying their bonds through a fund than directly.

Following this essay are tables covering stock funds (beginning on page 156), tax-exempt bond funds (page 162) and taxable bond funds (page 164). This abbreviated update to our annual fund survey shows bull and bear market ratings for 656 funds, along with total returns for 1991. The annual review, which will next appear Aug. 31, has more detail about fund assets, loads and expense ratios.

How good a return can you get from bond funds? Not enough to make you rich, but enough to keep ahead of inflation. A moderately risky portfolio of efficiently managed bond funds has a likely return of about 3% a year above inflation. The risk can be dampened somewhat by getting the government to share your losses. The risk should also be diminished with a little diversification; a handful of funds will do.

Illustrations by John Segal

Let's recapitulate those points as four rules of bond fund investing.

The first rule: *Have rational expectations.* The easiest mistake for a bond fund investor to make, especially a newcomer arriving from the safer world of bank CDs, is to project the recent past into the future. But last year's total return on a fund says next to nothing about its expected future return.

If you want to know what to expect from a fund, start with this simple formula: Expected return equals yield minus expenses. Find out what yields are on the kind of bond the fund owns, and subtract the fund's overhead cost, or annual expense ratio. Example: Vanguard's long-term Treasury fund buys U.S. government bonds yielding 7.7%, and runs up annual costs of 0.3%. So its expected return is 7.4%. The fund's total return (yield plus capital gains) over the next year could be much better or much worse, depending on which way interest rates go. But you can think of the 7.4% as par for the course. That's all you'll get if interest rates don't change.

A statistical expectation is an average of all possible outcomes, weighted by their probabilities. What would you pay for a raffle ticket that has a 50-50 chance of paying either $10 or $100? The expected return on this gamble is exactly $55—50% of $10 plus 50% of $100. Note that the actual return on a single ticket will be some other number—$10 or $100. But the $55 figure says what this ticket is worth to a rational buyer. An irrational buyer pays $60 if he has just won $100 on the last flip of the coin.

Best buys in bond funds

Fund	5-year total return annualized	Annual expenses per $100	Yield*	Telephone
Long-term bond funds				
USAA Mutual–Income Fund	11.1%	$0.46	7.8%	800-531-8181
Value Line US Government Securities	9.9	0.66	7.4	800-223-0818
Vanguard Fixed Income–Invest Grade	10.2	0.37	8.2	800-662-7447
Vanguard Fixed Income–US Treasury	9.2	0.30	7.4	800-662-7447
Ginnie Mae funds				
Benham GNMA Income	10.1	0.72	8.3	800-472-3389
Federated GNMA Trust	10.4	0.52	8.0	800-245-5000
Franklin US Govnmt Securities	9.7	0.52	7.8	800-342-5236
Vanguard Fixed Income–GNMA	10.4	0.34	8.2	800-662-7447
Junk bond funds				
Federated High Yield Trust	9.1	0.78p	11.4	800-245-5000
Lord Abbett Bond-Debenture Fund	9.3	*0.88*	9.8	800-223-4224
Merrill Lynch Corp–High Income	10.5	0.69	10.9	800-637-3863
Vanguard Fixed Income–High Yield	7.7	0.40	10.5	800-662-7447
Municipal bond funds				
Fidelity Tax-Free–Aggressive	8.7	0.66	6.9	800-544-8888
Vanguard Muni Bond–High Yield	8.6	0.26	6.4	800-662-7447
Vanguard Muni Bond–Insured L-T	8.6	0.26	6.1	800-662-7447
Vanguard Muni Bond–Intermediate	8.1	0.26	5.7	800-662-7447

*Current yield as defined by the Securities & Exchange Commission. p: Net of absorption of expenses by fund sponsor. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1%.*

These funds all score well on two tests: high performance and low costs. Performance is total return over five years, with penalties for volatility. Costs are sales loads (assumed to be spread over five years) plus annual expenses.

In the following tables, we publish a 12-month total return, which is the sum of dividends plus price gains or losses. Think of this number as what the lottery ticket paid on the last coin flip. Use it to compare a fund with a similar fund, not to compare it with a bank deposit.

Consider Benham Target Maturities–2015, a fund designed to mimic the performance of a zero coupon bond due in 23 years. Last year, with interest rates falling, the fund delivered a total return of 22.5%.

Is that an indication of what you can expect in the future? Not at all. Indeed, if you intend to hold this fund until 2015, there is no question of probabilities. You know the outcome in advance. The zeros are now yielding 8.1% to maturity. That, minus the fund's annual expenses, will be your return over the years.

The yield-minus-expenses formula works fine for the highest-quality noncallable bonds, which most Treasurys are. (Some long-term Treasurys can be called five years before maturity.) Risky and callable bonds need a further adjustment.

Junk bond funds have high yields that are offset by occasional losses of principal when an issuer defaults. (Think of Macy's.) What's the expected default loss? There's no magic formula, but a prudent investor would allow for a percentage point or two of annual loss.

Edward Taber III, director of T. Rowe Price's taxable bond division, says that junk prices should be firm enough this year to fully offset default losses, but that's a bullish view. If his prediction holds, a junk fund holder will enjoy a total return this year close to the fund's dividend rate, typically 10% to 12%. Note that Taber is not basing his prediction on what the T. Rowe Price High Yield Fund did last year—a total return of 30.9%.

Municipal bonds, unlike Treasurys, can often be called in early if the issuer so desires. This turns the bond into a heads-you-lose, tails-you-break-even proposition. If interest rates go up, you are stuck with the low-yielding bond. If rates go down, the bond gets taken away from you.

What does this do to your expected return? The answer depends on just what bonds your fund manager is buying. But, as a rough rule of thumb, subtract 0.2% from the stated yield of a long-term bond, says Ian MacKinnon, who runs Vanguard's fixed-income bond fund division. If a long-term muni fund reports a yield of 6.2%, then you should expect only 6% from it.

Ginnie Mae fund buyers also need a downward adjustment in their expectations. The risk here is that homeowners will call in the Ginnie Maes by refinancing their homes very quickly—but only if interest rates fall. This bias against the investor knocks maybe 0.5% off the expected return. With Ginnie Maes yielding up to 8.3%, a Ginnie Mae fund with a 0.5% expense ratio will have an expected return of only 7.3%.

One other factor should figure into your expectations if you plan ever to

live off your bond fund, and that is inflation. Prices are up some 3% from a year ago, but inflation would have been higher with food and energy excluded. Pessimists should knock 4% off expected returns to get a real expectation. Bottom line: 3% to 4% real returns on Treasury funds, slightly more on Ginnie Mae funds.

The second rule of bond fund investing: *Watch your costs.* Good bond funds have zero transaction costs (no loads or redemption fees, that is) and low annual costs.

How low is low? Vanguard's U.S. bond funds run up 0.3% or so in annual expenses. If a fund wants to charge you substantially more, there ought to be a compelling reason, such as enormous convenience or outstanding past performance over many years. The table (page 153) lists 16 Best Buy bond funds in 4 categories, selected on the basis of good performance and low costs.

Good bond funds, which are extremely liquid, beat direct investments in bonds. You can sell a no-load bond fund with a telephone call. To be sure, Treasurys bought directly from the government incur no annual overhead costs. But selling a Treasury before it matures will cost you a brokerage fee. And funds buy in even lots of $1 million. Most individual investors are odd-lotters and pay more.

Investors in municipal or junk bonds have even less justification for buying directly. In those markets, credit risk compels the sane investor to hold at least 20 positions for diversification. With bid/ask spreads wide on odd lots (less than $100,000), junk and muni investors need at least $2 million before they outgrow their need for funds.

Third rule: *Get the government to share your losses.* A classic maneuver in bond investing is the year-end tax swap. If your bonds have declined in value, you sell for a deductible capital loss and immediately repurchase similar, but not identical, bonds. (If you immediately buy back identical securities, the Internal Revenue Service won't permit the deduction.) The drawback is high transaction costs, those bid/ask spreads that the broker may have forgotten to tell you about.

Solution: Buy no-load bond funds instead of bonds. Swap out of, say, a Dreyfus muni bond fund, take your loss, and put the proceeds into a similar Fidelity muni fund. The two funds will respond similarly to a rebound in the muni market, so you don't risk cashing out at the bottom. But the funds are not identical in the IRS' eyes.

Remember, you are not trying to lose money on bond funds just to get a tax deduction. If you buy a muni fund with a 6% expected return, you hope to be pleasantly surprised with a 12% return. If rates fall and your fund shares appreciate, don't sell, since you'd owe capital gain tax. But if the market dips, swap. A capital loss is deductible against any amount of capital gain plus up to $3,000 of other income.

Final rule of bond fund investing: *Diversify—a little.* Since funds are already diversified, you don't need a fistful of them to spread your risk.

A plausible portfolio if you are in a high tax bracket would be this: 25% each in a money market, a junk bond fund, a Ginnie Mae or Treasury fund and a municipal bond fund specializing in bonds from your home state. Dividends on junk and Ginnie Mae funds are fully taxable. Treasury funds pay income that is usually exempt from state and local taxes, and local muni funds pay dividends usually exempt from both state and federal tax. With this spread, you would do much better than you would sitting on all cash, awaiting the coming of a cheap stock market. You would be exposed to some interest rate risk, but not a huge amount, and some risk from department store bankruptcies, but not an unbearable amount.

Divide your business between two no-load fund houses; if you maintain a money market account at each, a tax-loss swap is as easy as two phone calls. For a bond fund investor, more than two fund houses is unnecessary clutter. ■

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Stock and balanced funds

If the best measure of what to expect from a fund were its recent performance, just about all of these stock and balanced funds would be great buys. They averaged a 35.7% total return last year, 5 points ahead of the market.

But the point cannot be overemphasized: The fact that a fund, or the market, was recently strong says nothing about its likely return this year. For that reason we grade funds separately in bull and bear markets. Unless you don't care much about risk, or are certain to hold on for several market cycles, you should pay as much attention to a fund's bear market performance as its bull market performance. This approach makes even more sense today, in a market where stocks are trading at an extraordinarily high 27 times earnings. Consider, for example, the Constellation Fund distributed by AIM Equity. Its 70.2% latest 12 month total return makes it tempting to investors who want to be on board a hot performer. But note that while this fund is rated A+ in up markets, it gets an F in down markets. Unless you think the market is going to rise in an unbroken straight line, keep that F rating in mind.

To be rated below, a fund must have $25 million in assets and two full market cycles of history. The last two up-and-down cycles go back to June 1983 for stock funds, April 1983 for balanced funds and July 1984 for foreign funds. The performance benchmark for stock funds is the S&P 500. For balanced funds the benchmark is a blended index of the S&P 500 and a Merrill Lynch bond index. For foreign funds it's a Morgan Stanley international index.

Fund	Performance in UP —markets—	Performance in DOWN —markets—	12-month total return
ABT Growth & Income Trust	C	D	29.5%
ABT Utility Income Fund	F	A+	17.8
Acorn Fund*	B	C	47.1
Adams Express*	C	B	31.8
Aegon USA Growth	D	A	36.7
Affiliated Fund	C	B	21.9
Aim Equity—Charter Fund	B	C	37.4
Aim Equity—Constellation Fund	A+	F	70.2
Aim Equity—Weingarten Fund	A+	D	46.8
Aim Summit Fund	B	D	43.6
Alliance Balanced Shares (B)	B	C	20.4
Alliance Fund	B	D	35.9
Alliance Global—Small Cap Fund	C	D	25.3
Alliance Growth & Income	C	B	26.4
Alliance International Fund (F)	B	C	7.7
Alliance Quasar Fund	A	D	34.2
Alliance Technology Fund	A+	F	54.2
Amcap Fund	C	B	36.5
American Balanced Fund (B)	B	B	24.5
American Capital Comstock Fund	C	A	31.2
American Capital Convertible Secs* (B)	C	B	22.9
American Capital Emerging Growth	B	A	59.2
American Capital Enterprise Fund	B	D	38.3
American Capital Equity Income (B)	B	B	26.6
American Capital Growth & Income	C	B	30.2
American Capital Harbor Fund (B)	B	D	23.0
American Capital Pace Fund	C	A	31.4
American Growth Fund	F	A	23.6
American Investors Growth Fund	D	F	29.9
American Leaders Fund	D	A	31.0
American Mutual Fund	D	A	21.3
American National Growth Fund	B	C	37.0

Fund	Performance in UP —markets—	Performance in DOWN —markets—	12-month total return
American National Income Fund	D	A	29.0%
AMEV Capital Fund	A	B	49.2
AMEV Fiduciary Fund	A	C	52.3
AMEV Growth Fund	A	C	66.8
Amway Mutual Fund	C	C	19.7
Analytic Optioned Equity Fund*	F	A	13.3
ASA Limited* (F)	C	D	–7.8
Axe-Houghton Fund B (B)	A	D	22.0
Axe-Houghton Growth Fund	A	F	39.3
Babson Growth Fund*	C	D	26.0
Baker, Fentress & Co*	D	B	25.1
Bancroft Convertible Fund* (B)	D	C	24.0
Bartlett Capital Trust—Basic Value*	D	A	26.0
Berger One Hundred Fund	A	D	100.6
Bergstrom Capital*	A	A	64.1
Wm Blair—Growth*	B	C	43.0
Boston Co Capital Appreciation Fund	C	C	22.8
Bull & Bear Capital Growth Fund	D	D	21.3
Bull & Bear Gold Investors Fund (B)	F	F	–1.1
Burnham Fund	D	A	17.9
Calvert Social Inv—Managed Growth (B)	C	D	17.7
Cardinal Fund	C	B	31.8
Castle Convertible Fund* (B)	D	A	30.1
Central Securities*	D	D	24.1
Century Shares Trust*	C	A	31.4
CGM Capital Development Fund*	A+	B	99.3
CGM Mutual Fund* (B)	A+	D	40.9
Cigna Growth Fund	B	C	35.9
Colonial Fund (B)	B	D	25.1
Colonial Growth Shares Trust	B	D	34.0
Colonial Strategic Inc—Diversified (B)	D	D	28.3
Columbia Growth Fund*	A	C	34.2

*Fund has no load or shareholder-paid 12b-1 plan. B: Balanced fund. F: Foreign fund. G: Global fund.

Fund	Performance in UP —markets—	Performance in DOWN —markets—	12-month total return
Commonwealth Investment—Balanced (B)	D	C	25.4%
Composite Bond & Stock Fund (B)	D	B	21.4
Composite Growth Fund	D	A	26.8
Copley Fund*	F	A	17.1
Country Capital Growth Fund	C	C	27.8
Dean Witter American Value Fund	B	C	55.5
Dean Witter Developing Growth Secs	D	D	48.2
Dean Witter Dividend Growth Secs	C	A	30.5
Dean Witter Natural Resource Devel	D	C	5.3
Dean Witter World Wide Investment (G)	C	C	18.8
Delaware Group Decatur Fund—I	D	A	21.8
Delaware Group Trend Fund	A+	C	74.5
Dodge & Cox Balanced Fund* (B)	B	C	20.6
Dodge & Cox Stock Fund*	B	B	21.2
Dreyfus Convertible Securities Fund* (B)	C	C	33.0
Dreyfus Fund*	D	B	27.7
Dreyfus Growth Opportunity Fund*	B	D	51.4
Dreyfus Leverage Fund	D	B	31.7
Dreyfus Third Century Fund*	C	C	37.8
Eaton Vance Growth Fund	B	B	39.0
Eaton Vance Investors Fund (B)	C	C	21.0
Eaton Vance Special Equities Fund	C	B	55.6
Eaton Vance Stock Fund	D	B	20.6
Eaton Vance Total Return Trust	D	A	22.9
Enterprise Group—Growth	A	B	41.8
Equity Strategies Fund*	C	C	12.4
EuroPacific Growth Fund (F)	C	C	18.5
Evergreen Fund*	B	C	39.3
Evergreen Limited Market Fund*	A	B	50.6
Evergreen Total Return Fund*	D	A	22.9
FBL—Growth Common Stock	F	C	14.4
Federated Stock & Bond Fund* (B)	D	A	17.2
Federated Stock Trust*	C	A	28.3
Fidelity Contrafund	A	D	54.3
Fidelity Destiny Portfolio I*	A	B	38.2
Fidelity Equity-Income Fund	D	A	29.3
Fidelity Fund*	C	B	23.6
Fidelity Growth Company	A	D	47.4
Fidelity Magellan Fund	A+	B	40.1
Fidelity Puritan Fund (B)	B	B	26.2
Fidelity Retirement Growth*	B	C	44.8
Fidelity Select—Energy	D	C	0.0
Fidelity Select—Financial Services	C	B	61.5
Fidelity Select—Health Care	A+	D	82.7
Fidelity Select—Prec Metals & Mins (F)	D	D	1.5

Fund	Performance in UP —markets—	Performance in DOWN —markets—	12-month total return
Fidelity Select—Technology	A	F	59.0%
Fidelity Select—Utilities	D	A	20.9
Fidelity Trend Fund*	B	D	35.7
Fidelity Value Fund*	C	C	25.9
Fiduciary Capital Growth Fund*	C	C	36.2
Financial Dynamics Fund	B	D	67.0
Financial Industrial Fund	B	D	42.1
Financial Industrial Income Fund	B	B	46.3
First Investors Global Fund (G)	A	D	16.8
Flex-funds—Growth Fund	F	A	20.7
Founders Blue Chip	B	C	28.0
Founders Growth Fund	A	C	47.0
Founders Special Fund*	A	D	63.1
FPA Capital Fund	B	C	63.6
FPA Paramount Fund	C	A	23.7
Franklin DynaTech Fund	B	D	35.3
Franklin Equity Fund	C	D	26.1
Franklin Gold Fund (F)	C	C	6.0
Franklin Growth Fund	B	B	26.3
Franklin Income Fund (B)	D	A	40.8
Franklin Premier Return Fund	D	B	22.2
Franklin Utilities Fund	D	A+	24.0
Fundamental Investors	B	B	31.1
Gateway Index Plus Fund*	D	A	17.8
General American Investors*	A	D	61.4
Gintel Erisa Fund	D	A	13.5
Growth Fund of America	B	B	35.1
GT Global Growth—Pacific (F)	B	B	12.9
Guardian Park Ave Fund	B	B	35.0
John Hancock Growth Fund	B	D	41.8
John Hancock Sovereign Investors	D	A	30.4
John Hancock Tech—Global Tech	D	D	33.5
John Hancock Tech—Natl Aviation & Tech	C	D	31.2
Hartwell Emerging Growth	A+	F	70.2
IAI Regional Fund	A	B	35.0
IAI Stock Fund	C	B	26.5
IDS Discovery Fund	A	D	52.8
IDS Equity Plus	B	C	31.6
IDS Growth Fund	A+	D	46.9
IDS Mutual (B)	C	B	23.4
IDS New Dimensions Fund	A	C	49.3
IDS Progressive Fund	D	B	25.1
IDS Stock Fund	C	B	27.1
Income Fund of America (B)	C	A+	23.7
Investment Co of America	B	B	27.2

*Fund has no load or shareholder-paid 12b-1 plan. B: Balanced fund. F: Foreign fund. G: Global fund.

Fund	Performance in UP —markets—	DOWN	12-month total return
ITB—Growth Opportunities	C	D	30.6%
Investors Research Fund	A	D	42.1
Ivy Growth Fund*	C	A	30.5
Janus Fund*	B	A	42.1
Japan Fund* (F)	B	B	3.1
JP Growth Fund	C	B	32.0
Kemper Growth Fund	A	D	65.9
Kemper International Fund (F)	C	C	9.0
Kemper Summit Fund	A	D	67.5
Kemper Technology Fund	B	D	41.3
Kemper Total Return Fund (B)	A+	F	39.6
Keystone America Omega	A	D	51.5
Keystone Custodian K-1 (B)	C	C	23.9
Keystone Custodian K-2	B	D	39.3
Keystone Custodian S-1	C	C	28.7
Keystone Custodian S-3	B	D	41.6
Keystone Custodian S-4	A	F	70.8
Keystone International Fund (F)	C	B	14.4
Keystone Precious Metals (F)	D	D	8.2
Kleinwort Benson Intl Equity (F)	C	C	11.2
Legg Mason Value Trust	B	B	34.7
Lexington Corp Leaders Trust Fund*	B	B	22.0
Lexington Goldfund* (G)	D	D	–6.2
Lexington Growth & Income Fund*	C	C	24.8
Lexington Worldwide Emerging Mkts*	C	F	24.1
Lindner Fund*	D	A+	23.4
Lord Abbett Developing Growth	C	D	56.3
Lord Abbett Value Appreciation	B	C	27.1
Lutheran Brotherhood Fund	C	A	32.8
Mairs & Power Growth Fund*	B	C	41.8
Horace Mann Growth Fund*	B	C	26.2
Mass Capital Development Fund	B	C	22.0
Mass Financial Development Fund	B	D	32.3
Mass Financial Emerging Growth	A+	D	69.2
Mass Financial Special Fund	B	D	25.6
Mass Financial Total Return Trust (B)	A	C	21.5
Mass Investors Growth Stock Fund	B	C	47.3
Mass Investors Trust	B	C	27.4
Mathers Fund*	D	C	9.4
Merrill Lynch Basic Value Fund	C	B	26.9
Merrill Lynch Capital Fund	C	A	24.8
Merrill Lynch Intl Holdings (G)	C	A	16.9
Merrill Lynch Pacific Fund (F)	A	C	16.8
Merrill Lynch Phoenix Fund (B)	B	C	36.6
Merrill Lynch Special Value	D	D	54.8

Fund	Performance in UP —markets—	DOWN	12-month total return
Mexico Fund* (F)	A	A+	72.5%
MSB Fund*	D	C	16.5
Mutual Benefit Fund	A	B	27.7
Mutual of Omaha Growth Fund	A	C	62.4
Mutual of Omaha Income Fund (B)	F	A	18.5
Mutual Series Fund—Beacon*	D	C	17.4
Mutual Series Fund—Mutual Shares*	D	A+	20.8
Mutual Series Fund—Qualified*	D	A+	21.0
National Industries Fund*	D	C	32.0
National Stock Fund	D	B	22.9
National Total Income Fund (B)	C	A	23.3
National Total Return Fund (B)	A	C	28.6
Nationwide Fund	B	B	30.2
Nationwide Growth Fund	B	B	36.0
N & B Guardian Fund*	B	C	34.3
N & B Manhattan Fund*	A	C	30.9
N & B Partners Fund*	D	A	22.4
N & B Selected Sectors Plus Energy*	D	C	24.7
Neuwirth Fund	A	F	50.3
New England Balanced Fund	D	A	29.2
New England Growth Fund	A	B	56.7
New England Retirement Equity	D	A	27.1
New Perspective Fund (G)	D	B	22.4
New York Venture Fund	A	C	39.3
Newton Growth Fund	B	D	25.6
Niagara Share Corp*	D	D	19.3
Nicholas Fund*	B	A	41.8
Northeast Investors Growth*	B	C	36.6
Oppenheimer Equity Income Fund	C	B	17.2
Oppenheimer Fund	C	F	28.5
Oppenheimer Global Fund (G)	B	C	27.2
Oppenheimer Gold & Special Mins (F)	C	C	0.2
Oppenheimer Special Fund	D	C	43.8
Oppenheimer Target Fund	C	D	38.4
Oppenheimer Time Fund	A	D	38.5
Oppenheimer Total Return Fund	B	C	35.4
Over-the-Counter Securities Fund	D	B	38.6
PaineWebber Atlas Global Growth (G)	A	B	10.4
Pax World Fund (B)	B	C	20.4
Penn Square Mutual Fund	C	B	27.1
Pennsylvania Mutual Fund	C	D	31.8
Permanent Portfolios—Permanent (B)	D	C	7.9
Petroleum & Resources Corp*	D	D	6.6
Philadelphia Fund	F	C	5.7
Phoenix Balanced Fund (B)	B	C	25.4

*Fund has no load or shareholder-paid 12b-1 plan. B: Balanced fund. F: Foreign fund. G: Global fund.

Fund	Performance in UP —markets—	Performance in DOWN —markets—	12-month total return
Phoenix Convertible Fund (B)	C	B	12.5%
Phoenix Growth Fund	B	A	26.9
Phoenix Stock Fund	C	B	28.3
Phoenix Total Return	D	A	28.7
Pilgrim MagnaCap Fund	C	C	24.8
Pine Street Fund*	C	C	23.7
Pioneer Fund	C	C	22.0
Pioneer II	C	C	25.4
Pioneer Three	C	B	36.3
T Rowe Price Growth & Income*	C	B	31.4
T Rowe Price Growth Stock Fund*	C	D	33.4
T Rowe Price Intl Stock* (F)	B	B	15.6
T Rowe Price New Era Fund*	D	D	14.4
T Rowe Price New Horizons Fund*	B	D	51.9
Princor Capital Accumulation Fund	D	A	37.2
Princor Growth Fund	A	D	56.2
ProvidentMutual Growth Fund	B	B	49.9
ProvidentMutual Investment Shares	D	D	15.4
ProvidentMutual Total Return Trust (B)	D	B	18.3
Prudential Equity Fund	C	B	24.0

Fund	Performance in UP —markets—	Performance in DOWN —markets—	12-month total return
Prudential Global Fund (G)	B	C	13.3%
Prudential Growth Fund	C	C	24.1
Prudential Growth Opportunity	D	D	39.4
Prudential Total Return	C	B	11.0
Prudential Utility Fund	D	A	19.9
Putnam Convertible Income-Growth (B)	C	D	29.3
Putnam Energy-Resources Trust	D	F	7.2
Putnam Fund for Growth & Income	C	B	18.9
George Putnam Fund of Boston (B)	A	D	22.9
Putnam Global Growth Fund (G)	B	C	18.0
Putnam Health Sciences Trust	A	D	47.9
Putnam Investors Fund	B	D	27.4
Putnam OTC Emerging Growth Fund	A	C	40.7
Putnam Strategic Income Trust	D	B	24.5
Putnam Vista Fund	A	B	36.5
Putnam Voyager Fund	A+	D	49.6
Quest for Value Fund	C	A+	32.2
Rea-Graham Balanced Fund (B)	C	C	14.5
Royce Fund—Value	D	B	30.7
Safeco Equity Fund*	B	C	27.9

*Fund has no load or shareholder-paid 12b-1 plan. B: Balanced fund. F: Foreign fund. G: Global fund.

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Fund	Performance in UP	DOWN —markets—	12-month total return
Safeco Growth Fund*	B	C	62.6%
Safeco Income Fund*	D	A	23.3
Salomon Brothers Capital Fund	B	B	33.0
Salomon Brothers Fund*	C	B	30.8
Salomon Brothers Investors Fund	C	B	28.6
Salomon Brothers Opportunity Fund*	C	B	30.3
Sci/Tech Holdings	C	B	44.1
Scudder Capital Growth Fund*	A	C	42.2
Scudder Development Fund*	A	D	71.9
Scudder Growth & Income Fund*	C	C	28.1
Scudder International Fund* (F)	C	B	11.8
Security Action Fund	C	C	33.5
Security Equity Fund	A	D	34.6
Security Investment Fund	D	C	21.8
Security Ultra Fund	C	F	58.6
Selected American Shares	C	A	46.3
Selected Special Shares	B	D	24.7
Seligman Capital Fund	A+	D	53.7
Seligman Common Stock Fund	B	B	29.7
Seligman Growth Fund	B	D	38.2
Seligman Income Fund (B)	D	A	30.1
Sentinel Balanced Fund (B)	B	B	23.2
Sentinel Common Stock Fund	C	A	30.5
Sentinel Growth Fund	A	D	25.9
Sentry Fund*	B	D	28.6
Sequoia Fund*	D	A+	39.3
Shearson Appreciation Fund	B	B	26.9
Shearson Fundamental Value Fund	D	B	31.4
Shearson Global Opportunities (G)	C	C	12.6
Shearson Invest—Appreciation	D	B	23.5
Shearson Invest—Special Equities	D	D	45.1
Sit New Beginning Growth Fund*	A	C	65.5
Smith Barney Equity Fund	C	C	26.5
Smith Barney—Income & Growth	D	A	26.5
SoGen International Fund	D	A+	17.7
Source Capital*	D	A+	22.6
State Bond Common Stock Fund	B	D	33.2
State Bond Diversified Fund	C	B	31.2
State Street Investment Trust	B	C	28.1
SteinRoe Capital Opportunities*	B	F	62.7
SteinRoe Special Fund*	A	C	33.7
SteinRoe Stock Fund*	A	D	45.6
SteinRoe Total Return Fund* (B)	C	D	29.4
Strategic Investments Fund (F)	D	F	–18.9
Stratton Monthly Dividend Shares*	D	A+	34.8

Fund	Performance in UP	DOWN —markets—	12-month total return
Strong Investment Fund (B)	D	A	19.6%
Strong Total Return Fund (B)	C	B	33.6
Templeton Foreign Fund (F)	B	A	18.1
Templeton Growth Fund (G)	C	A	30.9
Templeton Smaller Companies Growth (G)	C	B	39.2
Templeton World Fund (G)	C	C	29.3
Transamerica Capital Appreciation	C	C	36.6
Transamerica Growth & Income (B)	C	B	32.1
Tri-Continental Corp*	B	C	28.6
20th Century Growth Investors*	A+	D	69.0
20th Century Select Investors*	A	C	31.4
20th Century Ultra Investors*	A+	F	86.5
UMB Stock Fund*	C	B	24.7
United Accumulative Fund	C	B	23.5
United Continental Income Fund (B)	A	D	25.9
United Income Fund	B	A	29.4
United International Growth (F)	C	A	19.0
United New Concepts Fund	B	C	88.2
United Retirement Shares (B)	B	C	21.7
United Science & Energy Fund	B	C	58.6
United Services—Global Resources* (G)	D	D	5.0
United Services—Gold Shares* (F)	D	D	–15.6
US Trend Fund	B	C	35.0
United Vanguard Fund	C	B	27.1
USAA Mutual—Aggressive Growth*	A	D	71.7
USAA Mutual—Growth Fund*	C	D	27.8
Value Line Fund*	B	C	48.2
Value Line Income Fund*	D	A	28.4
Value Line Leveraged Growth Inv*	B	B	44.0
Value Line Special Situations Fund*	D	D	36.1
Van Eck International Investors (F)	C	D	2.6
Vanguard Explorer Fund*	C	D	55.9
Vanguard Index—500 Portfolio*	B	C	30.1
Vanguard/Morgan Growth Fund*	B	C	28.4
Vanguard Small Cap Stock*	C	D	44.9
Vanguard Special—Gold & Prec (F)	D	C	4.3
Vanguard Trustees Commingled—Intl* (F)	A	A	9.8
Vanguard Trustees Commingled—US*	C	B	26.5
Vanguard Wellesley Income Fund* (B)	C	A+	21.4
Vanguard Wellington Fund* (B)	A	C	23.3
Vanguard Windsor Fund*	C	A	27.7
Washington Mutual Investors	B	A	23.3
Winthrop Focus Funds—Growth	D	D	28.0
WPG Growth & Income Fund*	C	C	40.7
WPG Tudor Fund*	A	C	51.0

*Fund has no load or shareholder-paid 12b-1 plan. B: Balanced fund. F: Foreign fund. G: Global fund.

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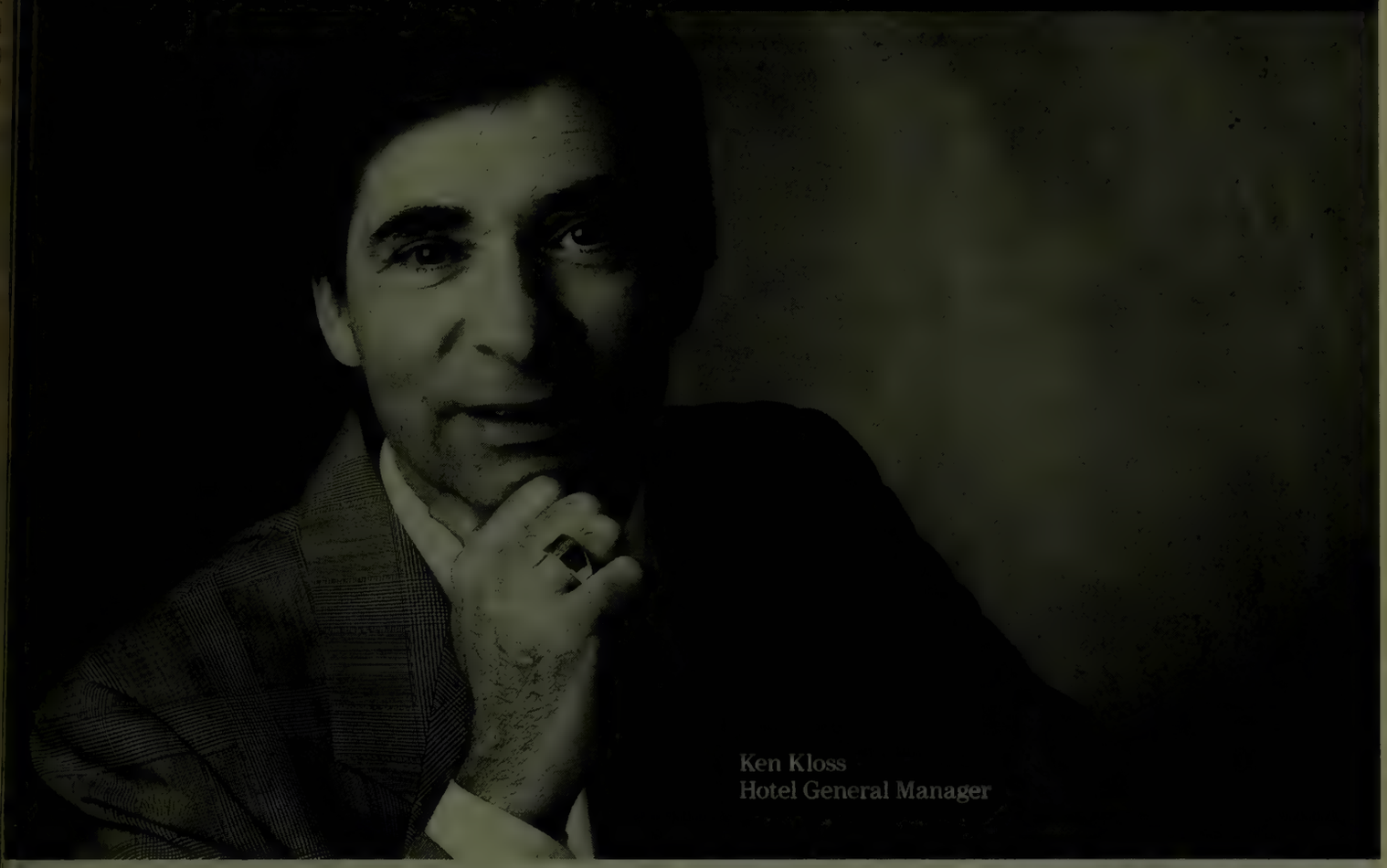

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Municipal bond funds

Single-state tax-exempt funds are rated here if they have five years of history and at least $100 million in assets. All other tax-exempt funds need at least five years of history and a minimum of $500 million to be listed. Each of the 60 months from January 1987 through December 1991 is taken as a bull or bear month, according to the perf mance of the Shearson Lehman municipal bond ind Composite bull- and bear-market performance is calcul ed for each fund and then translated into a letter gra assigned on a curve.

Fund	Performance in UP —markets—	DOWN	12-month total return
AARP Insured T-F Inc—Genl Bond*	A	D	12.3%
Alliance Muni Income—Calif	C	A	11.0
Alliance Muni Income—New York	C	C	12.3
Benham Calif Tax-Free—Intermediate*	D	A	10.4
Benham Calif Tax-Free—Long-Term*	B	D	11.8
California Tax-Exempt Bonds	C	B	11.1
California Tax-Free Income Fund*	D	A	12.2
Colonial California Tax-Exempt	D	B	11.2
Colonial Tax-Exempt Fund	D	A	11.7
Dean Witter Calif Tax-Free Income	B	D	10.1
Dean Witter NY Tax-Free Income	B	D	12.7
Dean Witter Tax-Exempt Securities	A	D	12.6
Delaware Group Tax-Free—USA	C	C	12.4
DMC Tax-Free Income Trust—Pa	C	C	12.8
Dreyfus California Tax-Exempt Bond*	D	B	10.4
Dreyfus Intermediate Muni Bond*	D	A	11.1
Dreyfus Massachusetts Tax-Ex Bond*	D	B	12.7
Dreyfus NY Tax-Exempt Bond Fund*	D	B	11.7
Dreyfus Tax-Exempt Bond Fund*	D	B	11.9
Eaton Vance California Municipals	C	D	9.4
Eaton Vance National Municipals	D	C	12.1
Federated Tax-Free Income Fund	B	B	12.5
Fidelity Calif Tax-Free Insured*	C	D	10.9
Fidelity Calif Tax-Free High Yield*	C	C	10.2
Fidelity Mass Tax-Free High Yield*	D	B	11.3
Fidelity Michigan Tax-Free High Yield*	B	C	12.1
Fidelity NY Tax-Free High Yield*	C	B	13.4
Fidelity NY Tax-Free Insured*	C	C	12.5
Fidelity Ohio Tax-Free High Yield*	B	D	11.4
Fidelity Tax-Free—Aggressive*	D	A	11.8
Fidelity Tax-Free—High Yield*	C	B	8.8
Fidelity Tax-Free—Ltd Term Munis*	D	A	11.2
Fidelity Tax-Free—Municipal Bond*	B	C	11.9
First Investors Insured Tax-Exempt	D	A	10.3
First Investors NY Insured Tax-Free	C	B	11.5
Flagship Tax-Ex—Michigan Triple	A	D	11.6
Flagship Tax-Ex—NC Triple	A	F	11.7
Flagship Tax-Ex—Ohio Double	A	D	11.8
Franklin Calif Insured Tax-Free Income	B	D	10.8
Franklin Calif Tax-Free Income	D	A	10.9

Fund	Performance in UP —markets—	DOWN	12-mor total return
Franklin Federal Tax-Free Income	B	C	13.2%
Franklin High Yield Tax-Free Income	D	A	12.4
Franklin Insured Tax-Free Income	B	D	11.3
Franklin Mass Insured Tax-Free Income	C	D	11.4
Franklin Mich Insured Tax-Free Income	B	C	10.9
Franklin Minn Insured Tax-Free Income	C	C	10.8
Franklin NY Tax-Free Income	D	B	13.5
Franklin Ohio Insured Tax-Free Income	B	C	10.9
Franklin Penn Tax-Free Income	B	D	13.4
Franklin PR Tax-Free Income Fund	C	B	12.2
General NY Municipal Bond	D	A	14.1
Hawaiian Tax-Free Trust	D	A	10.5
IDS California Tax-Exempt Fund	C	C	11.1
IDS High Yield Tax-Exempt Fund	C	B	12.0
IDS Minnesota Tax-Exempt Fund	C	C	10.6
IDS Tax-Exempt Bond Fund	A	D	10.1
Kemper California Tax-Free Income	B	B	11.4
Kemper Municipal Bond Fund	A	C	12.7
Kemper New York Tax-Free Fund	C	C	13.4
Keystone Tax-Exempt Trust	B	D	10.9
Keystone Tax-Free Fund	C	B	10.8
Lord Abbett Calif Tax-Free Income	B	C	13.2
Lord Abbett Tax-Free Income—New York	C	B	13.5
Merrill Lynch Calif Muni Bond	C	C	10.3
Merrill Lynch Muni—High Yield	C	C	11.5
Merrill Lynch Muni—Insured*	B	C	11.2
Merrill Lynch NY Muni Bond	B	C	13.4
MFS Managed High Yield Muni Bond	D	A	10.4
MFS Managed M-S Tax-Ex—Md	C	C	10.0
MFS Managed M-S Tax-Ex—Mass	C	B	11.7
MFS Managed M-S Tax-Ex—NC	C	B	10.4
MFS Managed M-S Tax-Ex—Va	C	B	10.4
MFS Managed Municipal Bond	A	C	12.7
New York Muni Fund	B	F	15.7
Nuveen Calif Tax-Free—Spec Bond	B	C	11.1
Nuveen Insured Tax-Free Bond—NY	B	C	13.4
Nuveen Municipal Bond Fund	C	B	11.4
Oppenheimer New York Tax-Exempt	D	A	11.6
Pacific Horizon—Calif Tax-Ex Bond	D	B	10.3
PaineWebber California Tax-Free Income	C	B	11.0

*Fund has no load or shareholder-paid 12b-1 plan.

Fund	Performance in UP —markets—	Performance in DOWN —markets—	12-month total return
Premier California Municipal Bond	B	C	11.0%
T Rowe Price Tax-Free High Yield*	D	A	11.7
T Rowe Price Tax-Free Income Fund*	C	D	12.2
Prudential Calif Municipal	C	D	11.3
Prudential Muni—New York	C	D	13.5
Prudential National Municipals	B	D	12.9
Putnam Calif Tax-Exempt Income	B	B	11.4
Putnam New York Tax-Exempt Income	A	C	14.2
Putnam Ohio Tax-Exempt Income	C	C	[illegible]
Putnam Tax-Exempt Income Fund	A	D	12.7
Putnam Tax-Free Income—High Yield	D	A	11.6
Scudder California Tax-Free Fund*	A	C	12.7
Scudder Managed Municipal Bonds*	A	D	12.2
Scudder NY Tax-Free Fund*	B	C	14.4
Seligman Tax-Exempt—Mass	A	D	13.0
Seligman Tax-Exempt—Michigan	A	D	12.0
Seligman Tax-Exempt—Minnesota	B	D	7.5
Seligman Tax-Exempt—Ohio	A	D	11.7
Shearson California Municipals	C	B	11.5
Shearson Income—Tax-Exempt Income	C	B	11.3
Shearson Managed Municipals	B	C	14.2

Fund	Performance in UP —markets—	Performance in DOWN —markets—	12-month total return
Shearson New York Municipals	D	B	13.0%
Spartan Pennsylvania Muni High Yield*	A	D	12.5
SteinRoe Managed Municipals*	B	B	11.6
Tax-Exempt Bond Fund of America	C	C	10.8
Tax-Exempt Fund of California	B	D	9.9
Tax-Free Trust of Arizona	C	B	11.7
Tax-Free Trust of Oregon	C	B	11.0
United Municipal Bond Fund	A+	F	13.4
USAA Tax-Exempt—High Yield*	A	C	12.4
USAA Tax-Exempt—Intermediate*	D	A	11.1
Van Kampen Merritt Insured T-F	C	C	10.5
Vanguard California T-F—Insured L-T*	A	F	10.8
Vanguard Muni Bond—High Yield*	A+	D	14.7
Vanguard Muni Bond—Insured L-T*	A	D	13.2
Vanguard Muni Bond—Intermediate*	C	B	12.2
Vanguard Muni Bond—Long-Term*	A+	F	13.5
Vanguard Muni Bond—Short-Term*	F	A+	7.3
Vanguard New York Insured T-F*	A	D	12.6
Vanguard Penn Tax-Free—Insured L-T*	A+	D	11.9
Voyageur Minnesota Tax-Free Fund	D	A	11.1

*Fund has no load or shareholder-paid 12b-1 plan.

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To be rated below, a high-grade bond fund must hav $100 million or more in assets and at least five years c history. Junk bond funds are scored by a separate system; minimum of two full market cycles is required. This come to not quite four years of history.

Fund	Performance in UP —markets—	DOWN	12-month total return
AARP Income—GNMA & US Treas*	D	B	14.4%
AARP Income—High Quality Bond*	C	C	15.4
Advantage Government Securities	D	C	14.7
Alliance Bond—High Yield (J)	C	D	33.0
Alliance Bond—US Government	C	B	15.7
Alliance Mortgage Securities Income	C	B	15.4
American Capital Bond Fund *	C	D	15.8
American Capital Corp Bond Fund	D	A	16.7
American Capital Government Secs	A	D	16.2
American Capital High Yield Inv (J)	B	D	41.3
AMEV Securities*	D	A	22.7
AMEV US Govt Securities Fund	C	B	13.9
Babson Bond—Portfolio L*	C	C	15.1
Bartlett Capital Trust—Fixed Income*	D	B	14.3
Benham GNMA Income*	B	C	15.6
Benham Target Maturities—2005*	A+	F	21.5
Benham Target Maturities—2015*	A+	F	22.5
Benham Treasury Note Fund*	C	C	13.7
Bond Fund of America	C	B	21.0
Cardinal Government Obligations	D	A	13.3
Cigna High Yield Fund (J)	B	A	42.4
Cigna Income Fund	A	D	17.9
Colonial Government Securities Plus	A	D	14.7
Colonial High Yield Securities Trust (J)	B	B	43.9
Colonial Income Trust	D	B	19.0
Columbia Fixed Income Securities*	B	C	16.1
Composite US Govt Securities	C	B	14.7
Dean Witter High Yield Secs (J)	B	F	66.8
Dean Witter US Govt Securities	D	A	11.2
Delaware Group Delchester H-Y—I (J)	A	B	43.9
Delaware Group Govt—Govt Inc II	C	B	15.2
Dreyfus A Bonds Plus*	A+	D	18.6
Dreyfus GNMA Fund	C	B	14.4
Eaton Vance Government Obligations	D	A	14.3
Eaton Vance High Income Trust (J)	D	B	38.2

Fund	Performance in UP —markets—	DOWN	12-month total return
Federated GNMA Trust*	A	C	15.4%
Federated High Yield Trust* (J)	A	C	52.5
Federated Income Trust*	D	A	13.9
Federated Intermediate Government*	D	A	13.4
Federated Short-Intermed Govt*	F	A+	10.4
Fidelity Capital & Income Fund (J)	D	B	29.8
Fidelity Flexible Bond Port*	B	C	18.9
Fidelity Ginnie Mae*	C	B	13.5
Fidelity Government Securities Fund*	C	B	16.0
Fidelity Intermediate Bond Fund*	D	B	14.5
Fidelity Mortgage Securities*	C	B	13.6
Fidelity Short-Term Bond Port*	F	A+	13.7
First Investors Fund for Income (J)	C	D	44.3
First Investors Government Fund	A	D	16.7
First Investors High Yield Fund (J)	D	D	35.2
First Trust Fund—US Government	B	B	15.4
Fort Dearborn Income Securities*	A	D	18.3
Franklin AGE High Income Fund (J)	A	D	47.6
Franklin US Government Securities	D	A	13.6
Freedom Inv—Government Income	A	D	14.4
Fund for US Govt Securities	D	A	13.4
Government Income Securities	D	A	13.1
John Hancock Bond Fund	C	B	16.5
John Hancock Government Spectrum	B	C	16.5
John Hancock Income Securities*	B	C	17.1
John Hancock Investors Trust*	B	C	17.9
John Hancock US Govt Securities	D	B	12.5
Home Investors Government Income	B	C	14.3
IAI Bond Fund	A	D	17.3
IDS Bond Fund	B	D	20.7
IDS Extra Income Fund (J)	C	C	38.1
IDS Federal Income Fund	D	A	11.0
IDS Selective Fund	B	D	17.0
IDS Strategy—Income	B	D	16.6
InterCapital Income Securities*	D	B	19.8

*Fund has no load or shareholder-paid 12b-1 plan. J: Junk bond fund.

Fund	Performance in UP —markets—	Performance in DOWN —markets—	12-month total return
Kemper Diversified Income Fund (J)	A	C	51.3%
Kemper High Yield Fund (J)	A	B	46.5
Kemper Inc & Cap Preservation	C	B	17.9
Kemper Invest—Diversified Income	D	A	50.5
Kemper Invest—Government	B	D	17.0
Kemper Invest—High Yield (J)	B	C	45.6
Kemper US Government Securities	B	C	17.2
Keystone Custodian B-1	C	D	14.8
Keystone Custodian B-2	D	C	18.5
Keystone Custodian B-4 (J)	C	D	41.1
Lexington GNMA Income Fund*	A	D	15.0
Liberty High Income Bond Fund (J)	A	C	59.8
Lord Abbett Bond-Debenture Fund (J)	C	A	38.1
Lord Abbett US Government Secs	A	D	16.6
Lutheran Brotherhood Income Fund	B	C	17.2
MainStay—Government Plus	C	C	13.3
MainStay—High Yield Corp Bond (J)	D	B	31.9
Mass Financial Bond Fund	B	C	18.0
Mass Financial High Income—Series I (J)	B	C	48.4
MassMutual Corporate Investors*	F	A+	18.3
Merrill Lynch Corp—High Income (J)	B	A	59.8
Merrill Lynch Corp—High Quality	B	C	17.1
Merrill Lynch Federal Securities	C	B	13.6
MetLife-State Street High Income (J)	C	C	36.3
MFS Government Income Plus	B	D	13.2
MFS Government Securities	D	C	14.1
MFS Lifetime Government Income +	C	D	11.7
MFS Lifetime High Income Trust (J)	A	D	49.5
Montgomery Street Income Secs*	C	A	22.0
National Bond Fund (J)	C	D	50.9
National Federal Securities Trust	A	F	19.9
N & B Limited Maturity Bond*	D	A+	11.8
New England Government Securities	A	F	14.8
Northeast Investors Trust*	F	A	26.3
Oppenheimer High Yield Fund (J)	F	A	28.5
Oppenheimer US Government Trust	D	B	14.6
Pacific American Income Shares*	C	B	20.3
PaineWebber Fixed Income—High Inc (J)	B	C	45.4
PaineWebber Fixed Income—Inv Gr	B	D	18.0
PaineWebber Fixed Income—US Govt	B	D	14.6
PaineWebber Income Fund	B	D	23.0
Pilgrim GNMA Fund	D	B	11.8
Pilgrim S-T Multi-Market Income	F	C	1.4
T Rowe Price GNMA Fund*	C	B	15.0
T Rowe Price High Yield Fund* (J)	D	B	80.9
T Rowe Price New Income Fund*	C	B	15.5

Fund	Performance in UP —markets—	Performance in DOWN —markets—	12-month total return
T Rowe Price Short-Term Bond Fund*	D	A+	11.2%
Prudential GNMA Fund	C	C	12.7
Prudential Government Plus	B	D	15.2
Prudential Govt Secs—Intermed	D	B	13.0
Prudential High Yield Fund (J)	C	C	34.5
Prudential US Government	A	D	15.5
Putnam Federal Income Trust	B	D	15.2
Putnam High Income Government	B	D	9.1
Putnam High Yield Trust (J)	C	A	58.9
Putnam High Yield Trust II (J)	B	B	45.4
Putnam Income Fund	B	C	18.3
Putnam US Govt Income Trust	D	A	11.8
Scudder GNMA Fund*	C	B	15.0
Scudder Income Fund*	B	C	17.3
Scudder Short Term Bond Fund*	C	C	14.4
Shearson High Yield Fund (J)	D	B	33.3
Shearson Income—High Income (J)	D	C	34.7
Shearson Income—Mortgage	C	C	17.0
Shearson Invest—Govt Securities	B	D	16.2
Shearson Invest—Invest Grade Bond	A+	F	27.8
Shearson Managed Governments	C	B	16.2
Smith Barney—US Government	A	D	16.2
SteinRoe Intermediate Bond Fund*	C	C	14.8
SunAmerica Equity—US Government Secs	F	A+	9.9
Thomson Fund—Income	D	A	11.8
Thomson Fund—US Government	C	C	16.7
Transamerica Govt Securities	B	D	16.5
Transamerica Income Shares*	A	C	18.3
20th Century US Governments*	D	A	11.6
United Bond Fund	B	C	18.7
United Government Securities	B	D	17.0
United High Income Fund (J)	C	D	37.2
United High Income Fund II (J)	D	A	31.3
US Government Securities	D	B	14.1
USAA Mutual—Income Fund*	A	C	19.2
Value Line US Government Secs*	C	B	16.3
Van Kampen Merritt High Yield (J)	C	C	35.1
Van Kampen Merritt US Government	A	D	15.8
Vanguard Bond Market Fund*	B	C	15.3
Vanguard Fixed Income—GNMA*	A	C	16.8
Vanguard Fixed Income—High Yield* (J)	D	A	29.2
Vanguard Fixed Income—Invest Grade*	A+	D	20.9
Vanguard Fixed Income—Short-Term*	D	A	13.2
Vanguard Fixed Income—US Treasury*	A+	F	17.4
WPG Government Securities Fund*	B	B	16.6

*Fund has no load or shareholder-paid 12b-1 plan. J: Junk bond fund.

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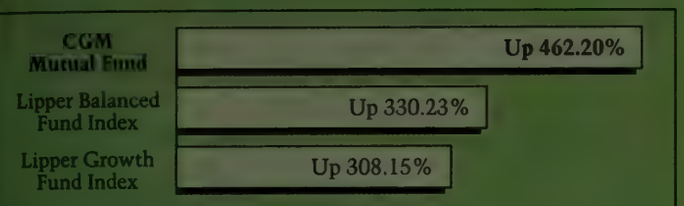

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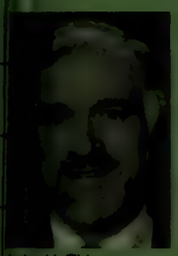

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BY GILBERT STEEDLEY

The air is getting pretty thin up where the stock market is flying. The Barra All-US index is now selling at 27 times trailing 12-month earnings. Earnings are supposed to be on the way up. But does anybody think they're likely to double or triple anytime soon? Yet that's what must happen if the market is to sell at reasonable levels by historical standards.

Jonathan Braatz, a senior vice president of Kansas City, Mo.-based Fahnestock & Co., cautions against rating the entire market as overpriced. "There are a number of stocks that are exaggerating the P/E in the overall market," he says, citing Microsoft, Home Depot and Wal-Mart. Braatz says investors should be buying smaller, slower-growing companies. Two he likes are AG Services of America, a provider of agricultural supplies, trading at 8 times earnings, and Big B, a discount drugstore chain, trading at 16 times earnings.

Another way to play this market is to look for turnaround situations. Citicorp, the largest U.S. bank, reported a loss of $457 million for 1991. Ray of hope: In the fourth quarter it lost only $133 million, against $382 million in the fourth quarter of 1990. Recently at 15, Citicorp shares are up 74% from their 52-week low. But Morton L. Brown, a general principal of St. Louis-based Edward D. Jones & Co., thinks the stock will continue to rise. Brown believes that Citicorp's cost-cutting will pay off this year and says: "Its strong position in international banking as well as the U.S. consumer market should lead to positive earnings in 1992."

After hitting record highs in mid-January, Wall Street backed off and attempted to digest some of its gains. The Barra All-US index finished the two weeks ended Jan. 24 with a 0.4% loss. But some stocks kept climbing. Value Line, Inc., which publishes stock market investment information, saw its shares rise 47% in the last two weeks. At a recent 39, they are trading at triple their price of a year ago.

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	–0.4%	28.9%	–1.9%
Sharpe/Barra Growth index[1]	–2.4	32.7	–3.4
Sharpe/Barra Value index[2]	1.4	22.4	–1.9
Dow Jones Industrials	0.5	21.3	–1.2
S&P 500	–0.6	24.0	–1.4
NYSE	–0.6	25.3	–1.3
Nasdaq	0.5	59.2	–1.3
Amex	1.6	35.1	–0.3
EAFE[3]	–2.1	9.0	–19.4
CRB index[4,5]	1.2	–1.6	–22.5
Gold[5]	–0.6	–4.7	–29.4
Yen[5]	–1.5	–6.3	–24.5
Oil[5]	4.8	–26.1	–54.6

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Value Line	38 1/4	47%	$ 2.75	Employee Benefit Plans	27 3/8	–55%	$2.07
Citicorp	14 3/4	41	1.05	Research Inst	18 1/4	–32	0.40
Network General	22 3/4	40	0.88	Data General	12	–29	1.97
Informix	25	40	0.94	Diasonics	19 1/8	–26	1.98
Viratek	22	40	NA	Corning	61 1/4	–22	3.75

The best and worst performing industry factors[6,8]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Tire & rubber	7.7%	6.3%	Pharmaceuticals	–6.4%	–4.0%
Oil services	7.0	–6.0	Beverages	–6.1	–3.1
Forest products	6.9	15.1	Electric utilities	–4.3	–4.8
Consumer durables	6.4	7.4	Health Care	–4.2	–4.2
Electronics	5.6	8.3	Tobacco	–3.9	0.2

Note: Data for period ending 1/23/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

FORBES/TUCS INSTITUTIONAL PORTFOLIO

BY STEVE KICHEN

Who made the most money?

Investment	Value of $10,000 invested 12/31/81[1]	Change last quarter
S&P 500	$50,289	8.4%
Wilshire Index	45,587	8.7
Institutional equity account[2]	41,655	7.8
Institutional balanced account[2]	38,456	6.5
Lehman Government & Corporate	36,092	5.3
Institutional fixed income account[2]	34,036	5.3
Treasury index	21,312	1.5

Segment performance and cash flow

Segment	Most recent quarter: median total return	Most recent quarter: shift in institutional holdings
Equity	8.3%	–0.1%
Fixed income	5.4	–0.3
Cash equivalents	1.3	–4.8
Convertibles	4.6	1.0
Other[3]	1.4	0.0*
Total	7.6	–0.5

If you missed the 1991 rally in small growth stocks, you have some distinguished company. Professional money managers last year averaged a 31.6% total return (price change plus reinvested dividends) on their equity portfolios. Good as it was, that return falls short of the 34.2% delivered by the Wilshire index, a yardstick that measures the performance of 6,000 stocks, most of them stocks of small companies.

The pros did manage to beat the yardstick for large companies, Standard & Poor's 500-stock index. That index showed a 1991 total return of 30.5%. But the institutions didn't come anywhere close to matching the Nasdaq index of over-the-counter companies, most of them small. The Nasdaq was up 59.4% last year, dividends included.

Smaller growth stocks, despite their recent rally, have not kept pace with large-capitalization shares over the past ten years. A hypothetical $10,000 investment in growth stocks (as defined by Santa Monica, Calif.-based Wilshire Associates) would be worth $30,300 today. The same investment made in the S&P 500 would have grown to $50,300. Institutional managers evidently put too much faith in growth and not enough in size. The median institutional equity account would have turned $10,000 into $41,700 in ten years.

Our tables of institutional investing behavior come from Wilshire's survey of 5,000 pension portfolios, which it calls the Trust Universe Comparison Service.

What the institutions bought and sold

Big stocks[4]

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
AutoZone	50.4%	47	Aflac[5]	21.1%	17
Avon Products	4.3	16	Brascan Ltd	7.6	NM
Centocor	9.7	NM	Can Occidental Petroleum	10.5	NM
Chambers Development	16.7	44	Citizens Utilities	20.3	17
CUC International	8.8	39	Cominco	3.4	NM
Duracell International	26.0	45	Hillenbrand Industries	38.6	29
KLM Royal Dutch Airlines	43.5	NM	LAC Minerals Ltd	6.3	NM
Office Depot	48.5	NM	LG&E Energy	9.8	12
RJR Nabisco Hldgs	–8.5	47	McDonnell Douglas	13.9	13
Safeway	–4.7	14	NationsBank[6]	15.2	11
20th Century Industries	4.2	9	TransCanada Pipeline	6.5	13
US Bioscience	102.6	NM	Westcoast Energy	4.8	15

Secondary stocks[7]

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
Celgene	32.6%	NM	Amdura	137.8%	NA
Computone	69.7	NM	American Biodyne	25.9	29
G-III Apparel Group	–10.0	27	Bio-Technology General	23.2	NM
Nutmeg Industries	52.9	30	Carolco Pictures	–68.1	NM
Outlook Graphics	42.6	18	Comprehensive Care	–11.1	NM
Peoples Telephone	56.0	34	Digital Systems Intl	34.2	16
Society For Savings Bancorp	–7.4	NM	Doskocil Cos	–48.4	NM
Suburban Bancorp	–15.2	14	IDEC Pharmaceuticals	–30.7	NM
Sulcus Computer	128.0	NM	In Focus Systems	–25.0	10
Timberland	10.6	16	K Swiss	–21.3	12
Universal International	–28.2	27	Raymond	–7.7	NM
Western Bank	13.5	10	Ziegler	67.2	15

[1]Total return. [2]Includes cash. [3]Real estate, foreign investments, venture capital, guaranteed income contracts. [4]Stocks with $1 billion or more in market capitalization at start quarter. [5]Formerly American Family. [6]Formerly NCNB. [7]Stocks with market capitalization between $40 million and $200 million at start of quarter. *Less than 0.05 percent. N Not available. NM: Not meaningful. Note: What the institutions bought and sold measures the change in the institutional holdings as a percentage of a stock's total capitalizatio net of price changes. Data for quarter ending 12/31/91. Prepared by the Trust Universe Comparison Service (TUCS), a service of Wilshire Associates, Santa Monica, Calif.

resumed dividend by a recovering electric utility usually a bonanza for investors.

Payback day

y Evelyn Feit

N FEBRUARY 1980, in the aftermath f the Three Mile Island nuclear mis-ap, General Public Utilities eliminat-d its dividend. The utility's stock rice dropped from a high of 10⅜ in 978, before the accident, to below 2 1981.

But there was life after the omis-ion. In May 1987 GPU paid out a mall dividend and has since then aised its dividend an average 68% a ear. Currently, the company pays out $1.50 a share; the stock trades at 25⅞.

Or take the Long Island Lighting Co. After omitting its payout in March 1984, Lilco started to pay a dividend again in August 1989; its shares have since gained 36%.

The table lists ten utilities that have cut or eliminated their dividends during the past 12 years. Barry M. Abramson, a utilities analyst at Prudential Securities, thinks that all these companies are returning to financial health and will begin restoring and increasing their dividends. Abramson predicts these stocks should perform nicely over the next several years.

One of the companies on the list, Illinois Power, omitted its dividend in August 1989, thanks to an adverse rate decision and writeoffs from the construction of the Clinton nuclear plant. Last year the dividend was reinstated; now Abramson expects this dividend to grow 15% a year. Illinois Power's current payout of 43% of free cash flow (net income plus depreciation less capital spending) is quite low compared with that of other utilities; Abramson argues that this makes strong increases more likely.

Another company, Pinnacle West Capital, got into trouble when it diversified into the thrift industry. It reduced its dividend in December 1988, then omitted it entirely in October 1989. Now that its MeraBank subsidiary has been taken over by the government, Pinnacle West is expected to resume its payout late next year.

Recently trading at 17⅜ and 16 times earnings, Pinnacle West is not particularly cheap for a utility. But before it was forced to cut its dividend Pinnacle was paying out $2.80 a share. Based on the current 6.4% yield for the S&P electric power group, a $2.80 payout from Pinnacle would suggest a share price of 44.

For investors with a long time horizon, even utilities with massive problems may eventually pay off. So says Charles Allmon, editor and publisher of *Growth Stock Outlook*'s *Utility Analyst*, a semiannual publication.

Allmon points to Tucson Electric Power. "It is a real dog now," he says. But he is watching it because it serves a fast-growing area of the country. Prior to a buildup of excess capacity and poor investments in nonutility areas, Tucson was regarded as one of the country's better-run utilities.

Despite a possible recovery, a resumption of dividends is probably years away for Tucson Electric. That's why this issue didn't make the table.

Note, too, that there's no guarantee that all of the stocks that are on the list will restore and/or increase their payouts. Ultimately, utilities' payouts are hostage to the politicians and regulators who control their rates.

Still, investors looking for above-average returns in utilities would do well to consider these fallen angels. Prudential's Abramson notes that in the mid-1980s utilities' dividends grew as much as 5% a year. But in 1990 the dividend on the S&P Electric Power Company Index declined 1%. In Abramson's estimation, utility dividends will expand only about 2% a year over the next several years. Investors who don't mind taking some risk should begin to focus on recovering utility companies. ■

Restoring the power

Company	Recent price	Latest 12-month EPS	Dividends per share	Yield	Payout	Estimated dividend growth*
DQE	28⅝	$2.49	$1.52	5.4%	61%	6%
Entergy	28¾	2.40	1.40	4.9	58	12
General Public Utilities	25⅞	2.47	1.50	5.8	61	7
Illinois Power	24½	–1.19	0.80	3.3	NA	15
Long Island Lighting	24½	2.24	1.70	6.9	76	4
Niagara Mohawk Power	18⅝	0.46	0.64	3.4	NA	15
Nipsco Ind	24⅝	1.98	1.24	5.0	63	7
Pacific Gas & Electric	30½	2.16	1.76	5.8	81	7
Pinnacle West Capital	17⅜	1.40	0.00	0.0	NA	NA
PSI Resources	17⅛	2.05	1.00	5.8	49	10

*Figures from Prudential Securities. NA: Not available.
Source: Media General via Lotus One Source.

Several years ago each one of these electric utilities reduced or eliminated its dividend. But these stocks are now on the mend.

SUSAN CROWE, EX-PERSONNEL DIRECTOR

AFTER 17 YEARS OF 60-PLUS-HOUR WEEKS, SHE QUIT.

For Susan Crowe of Chicago, the corporate lifestyle had grown stale. The time had come to work for herself. And she could afford to. Six years earlier she sat down with her Shearson Lehman Brothers Financial Consultant and came away with a diversified investment portfolio. Which included putting some assets into the hands of a top money manager. She began scouting for a company to buy, one that would embrace her love for sailing. And she found it in the seaside hamlet of Stockton Springs, Maine. Where, in January 1992, Sue and her husband, Robert, became the proprietors of BlueJacket ShipCrafters, makers of museum-quality model shipbuilding kits. Is there someplace you'd rather be? Maybe we can help you get there, too.

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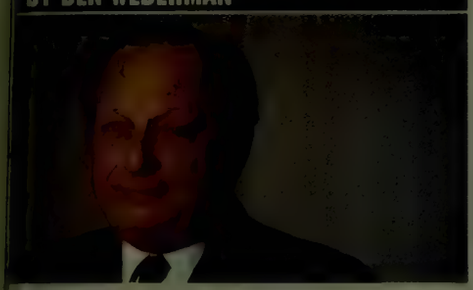
Foreign bond yields look extremely attractive right now. But where there is obvious reward, there is also subtle risk.

Which way the dollar?

BY BEN WEBERMAN



Ben Weberman is a columnist for FORBES magazine.

THE SPREAD of economic problems to countries around the world is a blessing for bond investors. But it is a mixed blessing.

The U.S. recession, now almost two years old, is spreading to Germany and Japan, as well as to many smaller nations. As the foreign economies stall, official action of the central bank and the finance ministry is to ease credit, thus dropping interest rates—a move that enhances fixed-income securities' prices.

But before piling into foreign bonds, remember this: For U.S. investors, the final results on bonds denominated in foreign currencies will have to be measured against changes in currency values versus the U.S. dollar. An investment that starts with dollars and ends with dollars may well have a lot, even all, of the total returns wiped out by losses in currency transactions.

Warns Mark Turner, lead portfolio manager of Scudder, Stevens & Clark's global bond funds: "More than half the [foreign bond] portfolio risk comes from adverse global currency movements."

Last year, for example, Prudential Securities' Global Yield Fund had to eliminate a quarterly dividend when its portfolio manager misjudged currency markets and hedged wrong.

Between 1985 and the latter part of the 1980s, international bond funds provided superior returns when compared with most funds that held only U.S.-dollar-denominated bonds. But those superior returns were largely a consequence of the decline of the dollar over the period. For the year ahead, I think there's a good chance the dollar will rise against most foreign currencies as the financial authorities in sagging overseas economies reduce interest rates.

Nevertheless, after investors have factored in exchange-rate risks, some foreign-fund investing may pay off. Global funds with average maturities of three years or less may still end up with better results than their U.S. dollar counterparts. That's because there are currently such gaping differences in yield between U.S. money market yields—now at about 4%—and foreign instrument yields, which range from 5.2% in Japan to 9.5% in Germany. In other words, at the shorter end of the yield curve, these yield differentials are probably more than enough to compensate for any capital loss arising from a depreciation of the yen or deutsche mark against the dollar.

Here are some possible ways to invest in foreign bonds: Scudder Short-Term Global Income Fund (assets, $415 million) now has an average maturity of 1.5 years and an SEC yield of 8.7%. The portfolio is invested mostly in U.S. Treasury bills, European Currency Unit bills and German floating-rate notes. About 30% of the fund is in U.S. dollar issues, about 10% in Mexican issues and the rest mostly in European.

For investors ready to assume the additional risks (currency and market) associated with moving further out on the yield curve—something I do not recommend—Scudder's International Bond Fund (assets, $370 million) has an average maturity of 11 years and an SEC yield of 7.1%. The portfolio contains mostly government bonds, with Japan accounting for 20% of assets, Germany 15% and the Netherlands 10%.

Among closed-end bond funds, Templeton Global Government Income Trust, recently trading at 9½ on the New York Stock Exchange, has a 3.7-year average maturity and a current yield of 8.8%. A sister fund, the Templeton Global Income Fund, holds a portfolio with an average maturity of 10 years; its yield is currently 9.2%. One-third of the portfolio is in U.S. issues. Other major countries are Canada, Italy and Australia.

Investors can, of course, buy bonds of individual countries and foreign companies directly. But this is a game only for very knowledgeable and very well-heeled individual investors who are willing to bet at least half a million dollars on a single currency.

Ten years ago only a few countries were open to foreign investments. Canada, the U.K., Germany, the Netherlands and Japan were the major suppliers. Now the number is up to 18, with Australia, New Zealand, France, Spain, Mexico and Italy being notable new investment sources.

What's hot these days? Spanish and Italian debt, for the simple reason these investments have lofty double-digit yields that many investors believe will come down fairly soon. Spanish money market instruments pay 12.5%, and ten-year government debt pays 11%. The Italian money market pays 12.1% at the short end and 12.5% on ten-year government obligations.

But tempting as those yields now seem, don't forget the currency risks. If the U.S. economy starts to recover in three months, U.S. interest rates will stop declining—and foreign rates may then be sinking from their present levels. These two forces would send the dollar up and the dollar value of foreign bonds down—perhaps way down. ■

It's Academy Award time in the investment letter industry, too. Here are some great performers and the stocks they now like.

And the winner is . . .

BY MARK HULBERT

Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

IN HONOR OF Hollywood's Academy Awards, which will be handed out next month, I have created my own, decidedly personal, awards ceremony for investment letters. My awards are based on the *Hulbert Financial Digest*'s 11½ years of performance data for these letters; updates through 1991 have just been released.

■*Best Overall Performance.* There's a new winner in this category. Up to now it had been held by Martin Zweig of the *Zweig Forecast*. But the strong performance of secondary stocks last year helped to propel another service to the head of the pack for performance: the *Chartist*, edited by Dan Sullivan. I calculate that Sullivan's model portfolios gained an average of 760% since mid-1980, equivalent to a compound annual return of 20.6%. This contrasts with 15.8% annualized for the Wilshire 5000.

Sullivan currently is bullish on equities, having added 18 new stocks to his portfolio in January, including a few blue-chip stocks such as *Coca-Cola* (recent price: 74), *Gillette* (51) and *Merrill Lynch* (61).

■*Most Consistent Long-Term Performer.* The *Zweig Forecast* still wins in this category. Though his long-term performance rank has dropped to third, his 632% total return is still well ahead of the market's 441%. And unlike the *Chartist*'s performance, which has been more volatile along the way, Zweig's model portfolio never has had a down year since 1980. Zweig currently is fully invested in stocks. His two most recent picks are *Bausch & Lomb* (56) and *National Health Laboratories* (27).

■*Best Stock Rating Service*: A tie between another Zweig letter, the *Zweig Performance Ratings Service*, and the *Value Line Investment Survey*. The Zweig ratings service remains well out in front for performance since 1983 (when the HFD started following it), with a gain of 264% compared with the Wilshire's 211%. I award a tie to *Value Line*, however, on the basis of the strong 1991 performance of its famed rating system. This eclectic blend of technical and fundamental indicators produced a 66% gain last year, as compared with the Wilshire's 34% and Zweig's rating service's 35%. Over the last five years, Value Line's rating system is up 125%, ahead of Zweig's rating service's 105% and the market's 96%.

This *Value Line* performance is particularly remarkable because as recently as a year ago some were speculating that the rating system may have lost its edge *(see my Dec. 10, 1990 column)*. But *Value Line* held fast to its methods and has been rewarded.

■*Best Fundamentalist Service: Value Line* again, though this time not their *Investment Survey* but another of their letters: the *Value Line OTC Special Situations Service*. In contrast to the Value Line rating system, this service uses more of a "rifle sho approach to pick off fundamenta undervalued companies that tra over-the-counter. It has outpaced t market since mid-1980, 613% 441%. Its most recent recommend tion is *Curative Technologies* (19).

The previous winner in this categ ry was *Growth Stock Outlook*, edited Charles Allmon. As of a year ago, f example, Allmon's model portfo was ahead of the market for perfo mance since mid-1980—largely the strength of an impressive reco during the early years of the decad But since 1986 Allmon has large been out of stocks, and the market h finally caught up with him: For t entire 11½ years since mid-1980, A mon's portfolio now lags the marke 414% to 441%. Needless to say, A mon, who remains very bearish, m yet have the last laugh if the mark declines significantly.

■*Best Mutual Fund Newsletter:* Th winner in this category is *Mutu Fund Strategist*, edited by Charl Hooper. His portfolios on averag have produced a 138% total retur over the last five years, outpacing th market's 96%. This is better than an of the other 26 mutual fund letter that the HFD tracked over this period

■*Best New Kid on the Block:* Th hands-down winner in this categor has to be Louis Navellier's *MPT Re view*, which applies Modern Portfoli Theory to the over-the-counter mar ket. Over the seven years the HFD ha followed Navellier, his model portfo lios have produced an incredible tota return of 954%, equivalent to 40% year compounded—more than dou ble the market's 17%. Navellier's cur rent favorites include three o-t-c is sues: *Tech Data* (recent price: 33), *X Rite* (29) and *Waterhouse* (29).

Navellier's performance is so much greater than the market's that I have worried for several years that he wil regress to the mean. After all, research from not only the HFD but the mutua and pension fund arenas as well has shown that it's extremely rare to achieve more than about a 25% com pound rate of return for long periods of time. But so far Navellier has defied these odds: Last year, for example, he gained 84%.

Now that surely is something to celebrate! ■

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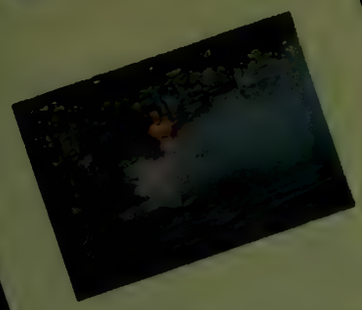

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The fact that stocks are at such high valuations strikes me as a kind of financial insanity. But there is a positive side.

Investors as bankers

BY FREDERICK E. ROWE JR.

Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

I HAVE a professional friend who is currently unemployed. It is unlikely that he will get another job that pays as well as the one he has just left. He has a liquid net worth of about $200,000, a nice nest egg, but not enough to live on for the rest of his life.

For years, this friend shopped certificate of deposit rates and bought CDs at the financial institutions paying the highest rates. In fact, he managed to buy CDs from at least five institutions that eventually failed. The fact that they were paying the highest rates was a sign of their weakness, not a sign that they had brilliant things to do with his money. Since the deposits were insured, he did not lose a penny. Nor did he lose any sleep.

With aftertax, after-inflation returns on CDs now below zero, my friend, like millions of other American savers, believes that the stock market is the place to be. How much of his savings, I asked him, did he think was appropriate to commit to the stock market? "All of it," he answered, without hesitation.

My understanding is that individuals currently have $2 trillion invested in short-term deposits. Wall Street will continue to facilitate the transfer of much of this money to the stock market as long as interest rates stay down—which will be as long as there is no meaningful economic recovery.

Lots of fundamentally sound companies and lots of companies that represent little more than pipe dreams will offer stock to the public at prices that hold little interest for value investors. This won't be good for a lot of investors, but it may be very good for the economy. That's because once these companies have the public's money in their corporate tills, they will spend it. They will hire people. They will buy things. They will cover their executives with lavish perks. Stock market investors, in effect, are putting money where bankers no longer will.

So even though U.S. stocks are at valuation levels that strike me as a sort of mass financial insanity, I belatedly see that there is a very positive side to the mania. For now.

I know this will sound like sour grapes from a battered bear. It will also sound old-fashioned. But the stock market is risky at these levels. S&Ls made risky loans, but the depositors were protected by federal guarantees. There are no federal guarantees in the stock market. Having lived through the bear markets of 1974 and 1982, in which stocks were virtually given away, I have painful first-hand knowledge that stocks go down as well as up.

For a long time the public believed that its future financial prosperity lay in the appreciation of its homes and in the comfort of insured returns on its deposits that exceeded the rate of inflation. In each case, the public has been disappointed. I am afraid t the current stock market experie will prove even more disappointi And when will that happen? When cash runs out. If you missed out the big rally, don't go in now. A t will come when cash reserves come in mighty handy. The lon that takes, the harder the fall will

So what should an investor do w is trapped in cash and confronted w interest rates that do not seem app ing, and with a stock market sellin valuation levels that have never b exceeded?

First, he or she should accept very reasonable notion that havin little cash is not the worst thing t can happen to a human being. (If y doubt me, ask Donald Trump.) T investor should then proceed caref ly—looking for value and steadfas refusing to be seduced by overvalu stocks on the grounds that they v go up because they have gone t That is the greater fool's game.

The major integrated oil comp nies, which haven't participated mu in the recent market rallies, wou seem to offer value at current pric The price of oil and gas has been we but these companies can make up their lost oil and gas profits throu their downstream refining and m keting operations. Many of the companies sell at low multiples earnings and cash flow and pay di dends that are very competitive wi money market rates. *Exxon* (60, yiel ing 4.5%), *Texaco* (62, yielding 5.1% and *Chevron* (60, yielding 5%) wou seem to offer worthwhile current i come and reasonable value.

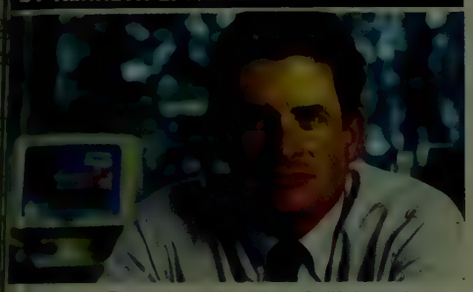
Mutual funds and other financ institutions have difficulty with t tax accounting complexities presen ed by master limited partnerships, ar therefore tend to avoid them. Thr whose yields are, I believe, secure ar have a chance to grow: *Kaneb Pipeli Partners* (19, yielding 11.6%), *San Fe Pipeline Partners* (34, yieldir 8.1%) and *OKC Limited Partners* (yielding 6.6%).

When this bull market collapses, I believe it will, no stocks will b unscathed, and investors with cas will have a great opportunity to bu But if you feel the urge to buy som thing now, the stocks above shoul hold up better than most. ■

If the stock market's current froth scares you, relax. It's confined mostly to one sector and merely signals which stocks are next likely to shine.

Ripe for rotation

BY KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books: *The Wall Street Waltz* and *Super Stocks*.

THE OTHER DAY syndicated columnist Herb Greenberg asked me: "Doesn't the stock market's heavy speculative tone mean it carries an unusually high risk level?" I replied: "Not this time, Herb." Why not? Because the fervor he worries about is limited to just one part of the market. Unless the froth encompasses at least several market sectors, it will fade.

The market has four basic stock groups. Market leadership rotates among them. The key is sensing which groups are leading, lagging and which will soon take the lead.

One way to dissect the market is by market cap—stock price times number of shares outstanding. Generally, the 500 largest stocks, running down to about $1 billion in market value, are considered "big cap." Below that in size there are about 1,500 liquid "small-cap stocks."

A second way to cut the market is by relative value. Here, stocks are arrayed by a valuation tool, like P/E or price-to-book. The lower half are "value" stocks. The higher half are "growth" stocks—they must grow fast to justify their premium pricing.

Combining these two cuts produces the matrix shown here. In it, stocks are arrayed vertically by market cap—"big" or "small"—and horizontally by valuation—"growth" or "value." The upper left box comprises one group: 250 big-cap/value stocks—big-caps and low price-to-book ratios. Think of Dow Chemical, GM, ITT, or these days even IBM.

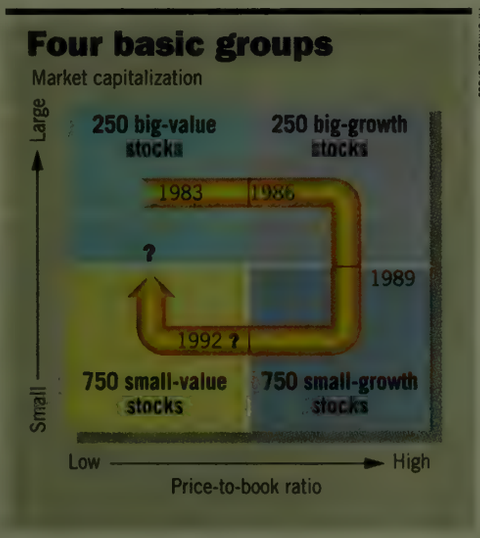
The upper right-hand box represents a second grouping: 250 big-cap/growth stocks. Examples are Coca-Cola, Gerber or Merck.

The lower right-hand box represents a third group: 750 small-cap/growth stocks—ones like Circon Corp., Kaydon Corp. or Xilinx.

The lower left box comprises the fourth basic group: 750 small-cap/value stocks—ones like those I have been recommending recently.

America's 1,000 largest pension plans, which now control most of the money in the market, parcel it out among these four groups. First, they decide what they want allocated to each group. Then they hire specialty managers to beat the category by stock-picking from within it. Asset allocation is a bit more complicated than this, but only a little.

Here's the key: Each group has its day, rises, gets frothy and fades—to be followed by another group. That's what market rotation is all about.



A. Christie/Forbes

The market has four basic stock groups. Leadership rotates among them.

From 1983 to 1986 the market was led by the big-cap/value pack. Pick up a 1986 copy of *Pension and Investments*, the leading journal for institutional investors, and you see that big-cap/value was all the rage. But then the lead rotated to the big-cap/growth stocks. This group led the market through late 1989.

Then the lead rotated again, to small-cap/growth. This group held the lead until this January; now the small growth group has begun to look both frothy and a little tired.

To where will leadership rotate next? To the only group that hasn't done well for years—the small-cap/value stocks. Relative to the other groups, these stocks have been out of fashion since the mid-1980s.

I thought this shift would start last summer *(see my June 10, 1991 column)*, but no, I was too early. Now, while I'm not 100% certain, I think January rang the starting bell. Why? Because the big-cap/growth group is the mirror opposite of the small-cap/value group—and big-cap/growth stocks fell from second place in performance last year to last place in January. In a telling shift—for the first time in years—lots of leading big-cap, big-growth names like *Merck* (153), *Coca-Cola* (73) and *Gerber* (69) dropped sharply in January, while the market rose. Meanwhile, small-cap/value stocks climbed in January.

Here are some of the good-quality small-cap/value stocks that I believe should do well as market leadership rotates to this neglected group:

Applied Magnetics (7), the leader in computer disk heads, should grow nicely yet sells at 22% of revenue and 65% of book value. Ditto for *Hexcel* (13), a leader in advanced specialty aerospace materials; its valuations are almost identical to Applied Magnetics'. *Wyle Labs* (15) is cheaper than most electronics distributors. I have known Wyle's chief executive, Charles Clough, for 20 years, have tremendous respect for him and know his stock should sell at above-average valuations. Finally, UNC (6), a leading servicer of jet engines, has major upward earnings potential from refinancing its short-term debt at new lower interest rates.

There are times when it is better to consume capital rather than reach for yield. This is one of those times.

Don't be a yield pig

BY SETH A. KLARMAN

Seth A. Klarman, president of The Baupost Group, Inc., a money management firm, is the author of *Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor* (HarperCollins, 1991).

I HAVE THOROUGHLY reviewed the U.S. Constitution (and the Bill of Rights for good measure) and, contrary to popular belief, there is no mention of a right for savers to earn high rates of interest on government-guaranteed principal. Nevertheless, it comes as a terrible shock to a lot of people that some current short-term interest rates are only one-third of early 1980s levels. The correct response to this shock can be crucial to your financial health.

There is always a tension in the financial markets between greed and fear. During the 1980s investor greed frequently got the better of fear, with the result that yield-seeking investors, known among Wall Streeters as "yield pigs," were susceptible to any investment product that promised a high current rate of return, the associated risk notwithstanding. Naturally, Wall Street responded by introducing a variety of new instruments—junk bonds, option-income mutual funds, international money market funds, preferred equity return certificates (PERCS)—anything that promised high current yields to investors.

Unless they are deluding themselves, investors understand that to achieve incremental yield above that available from U.S. government securities (the "risk-free" rate), they must incur increasing levels of principal risk. There is no risk-free yield enhancement on Wall Street. The painful result: Higher risk investments often erode one's capital and produce lower returns—the worst of all investment worlds. Higher-returns-for-higher-risks only applies on average and over time.

Investors must carefully examine alternative investments to assess when they are being adequately compensated for bearing risk and when they are not. When the yield differential between riskless and more risky securities is sufficiently large, even a conservative investor might reasonably venture beyond U.S. government securities. Thus, for example, it made sense to buy the Federated Department Stores senior-secured bonds, Harcourt Brace debentures and Manville preferred stock when panic hit the junk bond market in late 1990 and early 1991.

These days, however, I don't believe investors are being compensated sufficiently to venture beyond risk-free instruments. Yield spreads between government bonds and corporate credits have contracted sharply this year from levels a year ago. Some bonds of such highly leveraged issuers as Burlington Industries and Unisys now trade above par. A year ago they sold at substantial discounts from par.

Yield-starved investors also have been bidding up the bonds of such deeply troubled issuers as Chrysler, Stone Container and Marriott. General Motors PERCS—a newly ated instrument that only a yield could love—recently traded at a l so high that the common stock came a better buy no matter wh GM common traded and no ma what action GM's board took on dividend.

Some investors, desperate for b ter yield, have been reaching not f new Wall Street product but for a v old one—common stocks. Find the yield on cash unacceptably l people who have invested conser tively for years are beginning to thr money into stocks, despite the ol ous high valuation of the market, historically low dividend yield and serious economic downturn curren under way.

How many times have we hear recent months that stocks have alw outperformed bonds in the long r Funny, but we never hear that arg ment at market bottoms.

In my view, it is only a matter time before today's yield pigs are to the slaughterhouse. The shares good companies and bad compan alike are vulnerable to sharp declin Moreover, many junk bonds th have rallied will tumble again, an number of today's investment-gra issues will be downgraded to ju status if the economy doesn't beg to recover soon.

What if you depend on a high return on your money and can't li on the income from 4% interest rat In that case, I would advise peop to ignore conventional wisdom a consume some principal for a whil if necessary, rather than to rea for yield and incur the risk of maj capital loss.

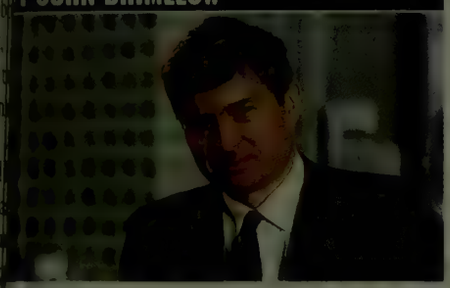
Stick to short-term U.S. gover ment securities, federally insur bank CDs, or money market funds th hold only U.S. government securitie Better to end the year with 98% your principal intact than to risk yo capital rooting around for increme tal yield that is simply not attainabl

I would also counsel conservati income-oriented investors to get o of most stocks and bonds now, whil the getting is good. Caution has n been a profitable investment tactic f a long time now. I strongly believe it about to make a comeback. ■

ents in the former Soviet Union could give huge boost to world commodity prices and get rld inflation speeding up again.

An economy n trauma

Y JOHN BRIMELOW



n Brimelow is director of international uities for BV Capital Markets, Inc., the w York brokerage arm of Bayerische reinsbank, Germany's third-largest bank.

HE LEADING Soviet export of recent mes has been surprises. A special one ay even now be in the gift-wrapping age. A process currently under way the territories of the former .S.S.R. could trigger a commodity rice boom as powerful (and cruel to ears) as the great markets of 1972-3 and 1987-88. The consequences or recently unfashionable natural re-ource equities could be dramatic.

Over the last couple of years an nprecedented flood of commodity hipments from the Soviet Union has wamped markets and sent prices reel-ng. As Wall Street and the business ress have realized this, the con-ventional wisdom has inevitably ormed that these shipments will ontinue.

In fact, Soviet behavior is even more influential than generally rec-ognized. Markets like cocoa, lead, zinc and tin, where Soviet pur-chases were normally significant, have been faltering for lack of this traditional demand. Economic re-vival in Eastern Europe is also be-ing delayed by the weakening of Soviet demand.

Clearly, the former Soviet territories are in extreme economic trauma. All the classic symptoms are there—barter, hoarding, massive intensification of extralegal economic activity, loss of respect for the local currency. Indeed, the immediate cause of the commodity flood is the panicky desire on the part of people in the old Soviet territories to get their hands on foreign currency. Breaking the normal production chain and shipping overseas is irresistibly attractive to enterprising individuals now that they seem unlikely to be shot for it. Never mind that local factories are deprived of the raw materials they need; get foreign currency at any cost.

But none of this is new. Economies in extreme trauma have been seen several times this century—Germany and Japan after World War II and Russia itself after the revolution, for example. The phenomenon has been lucidly discussed by UCLA's Professor Jack Hirshleifer in his *Economic Behavior in Adversity* (University of Chicago Press).

The key point: When things get bad enough, even the most deranged governments (like Lenin's Bolsheviks) come to their senses. And then the magnitude of the recovery can be enormous *(see table)*.

Industrial production index

Country	Base year	Low	Recovery high	Rebound from low
Germany	1938	1946—33	1949—74	124.2%
Japan	1934–36	1946—31	1949—71	129.0
Russia	1913	1921—13	1924—49	276.0

Base year equals 100.
Source: Jack Hirshleifer, *Economic Behavior in Adversity.*

The magnitude of a country's economic recovery from trauma can be enormous, as these three examples prove.

Don't fixate on the issue of how long it will take to bring Russia up to Western European production levels. This is the wrong question for the commodities markets. Even a return to something like Brezhnevian levels of inefficiency would still have profound implications for the area's propensity to consume or export many raw materials.

Other factors could intensify this coming swing. For example, energy was notoriously underpriced under the communists. This has led to the anomalous situation of a flood of energy-intensive metal exports, such as aluminum and ferroalloys, from a country supposedly short of energy. Any move to world energy prices could suddenly shut off this supply.

The swing will also be exaggerated by the so-called inventory effect. Generally, worldwide commodity consumption exhibits only sluggish trends. Changes in inventory preferences are what make commodities interesting. Right now, world industry is complacent, confident of a world slowdown and raw-material oversupply courtesy of the ex-Soviet Union. Add some measure of world recovery to the changes I foresee in Russia, and purchasing managers could be headed for a hectic time.

All this, of course, could bring bad news on the inflation front. I suspect that "noise" from the Soviet Union's liquidation process has been suppressing a measure of price inflation that would otherwise have shown up in the indexes. Eliminate this effect, and sentiment could change sharply.

Obvious beneficiaries: nickel and aluminum equities like Inco, Alcan, Alcoa. The platinum and gold sectors, which have felt the Russian bootprint as deeply as any, could do better. Not only would they benefit from a shift in the demand/supply balance, but a change in inflation expectations would boost them even more.

Rustenberg and Impala are the outstanding platinum plays. There is more choice in gold: I like Newmont, Franco-Nevada and Euro-Nevada.

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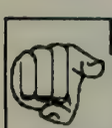

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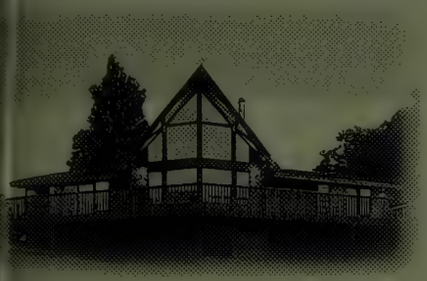

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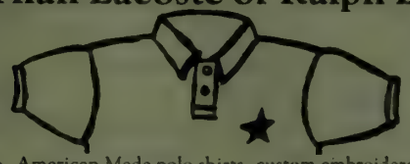

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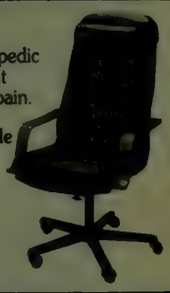

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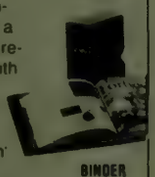

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Have a Ball

BALL CORP., the $2.3 billion (sales) maker of beverage containers and other packaging products, has quietly expanded during the downturn. In late 1990 the Muncie, Ind.-based company paid $65 million, not including debt, to buy out its partner in a glass packaging joint venture. Last April it paid $104 million for operations in Canada. Lately, Ball has agreed to pay $70 million for four commercial glass plants belonging to Kerr Glass Manufacturing.

The acquisitions make good sense, says analyst Cornelius Thornton of First Boston. Ball is adept at cost-cutting and should be able to maximize earnings leverage. In addition, Thornton forecasts lower raw materials cost for metal cans in 1992. As for glass, he expects operating rates as well as prices to rise slightly.

Ball has strengthened its balance sheet, too. In September it raised over $100 million through the sale of nearly 3.2 million shares at 34⅜ apiece. Recently the company also retired a $50 million issue of preferred stock.

In 1991 Ball earned $2.42 a share, up 19%; this year Thornton estimates it will earn $2.80. So even though the stock—recent NYSE price of 38¾—is up more than 20% since last fall, it still sells for 14 times anticipated earnings. There are 25.6 million common shares outstanding. The Ball family and related parties own about 45%.

Penney-wise?

POOR J.C. Penney Co., Inc. Left in the dust in the Seventies by discounters like Wal-Mart, the Dallas-based general merchandiser spent the Eighties chasing more well-heeled customers with fancier goods. But the strategy was only modestly successful.

Then came the recession. In the fiscal year ended Jan. 31, 1991, Penney's earnings per share dropped 27%, from $6.31 to $4.59. For the fiscal year just ended, analyst Thomas Tashjian of First Manhattan estimates earnings dropped another 18%, to $3.56 a share.

But don't count $17.2 billion (estimated sales) Penney out, says Tashjian. Although sales have been sluggish, he points out that over the last six months Penney has reduced its prices 8% on average. This slowly is bringing more customers into the stores. Meanwhile, the company has steadily been cutting expenses as a percentage of revenues. For the fiscal year just beginning, Tashjian estimates Penney will earn $5.20 a share.

A J.C. Penney store
Down but far from out.

Twice before in recent years—1986-87 and 1988-89—Penney stock has handsomely rewarded those who bet on a turn in its earnings momentum. With the NYSE stock lately around 55, Tashjian thinks it could rise to 70 over the next 12 to 18 months. He says the downside is limited by Penney's rich—and safe—$2.64 dividend. Recent yield: 4.8%.

The artful contrarian

AMONG PROPERTY and casualty insurers, $13 billion (assets) St. Paul Cos. has been a contrarian. Take medical malpractice coverage. Competitors shunned this business from the early 1970s through the mid-1980s; St. Paul established itself as a highly profitable market leader in the field.

A few years later many financial services companies dumped their municipal finance operations in response to the 1986 tax reforms. But St. Paul stuck with its John Nuveen & Co. subsidiary, refocusing it on municipal bond funds.

At a time when a downturn in the property and casualty cycle is throttling its industry, St. Paul's contrariness is seeing it through the storm. Thanks to tort reform and more responsive methods of policy pricing, St. Paul's medical service division accounted for over half of last year's $8 a share of earnings. (This included $2.50 to $3 per share of excess reserves set aside in the mid-1980s.

Another big kick is coming f Nuveen. Because of an abundanc yield-hungry investors, it now m ages over $20 billion and is sel funds like hotcakes. Nuveen gene ed an estimated $75 million, or most 15%, of St. Paul's 1991 pr earnings, versus around 9% in 19

In 1988 St. Paul completed a $ million acquisition of Minet Grou British insurance broker. The deal yet to pay off, and some investors St. Paul goofed. But be patient, analyst A. Michael Frinquelli of S mon Brothers. St. Paul is deempha ing Minet's dependence on broker for Lloyd's and is focusing on more promising specialty niches professional liability coverage for countants and lawyers worldwide.

Frinquelli expects St. Paul to e $8.45 a share this year, up 6% over $8 he estimates it earned in 19 That values the NYSE-listed compa whose stock has risen from 64 in 1 October to a recent 73, at 8.5 tin anticipated 1992 earnings. Over next 12 months, Frinquelli thinks stock (45 million shares outstandir can go to 100. –MATTHEW SCHIFF

A utility recovers

WASHINGTON Public Power Supp System in 1983; Public Service Co. New Hampshire in 1988; Colum Gas System last year. Is Public Servi of New Mexico next on the list busted utilities? Portfolio manag Justin Mazzon of San Francisc based Stinson & Mazzon thinks no

PNM, which badly overexpand during the southwestern boom of t mid-1980s, is fired 75% with co 25% with nuclear power from Ariz na's Palo Verde plant. Several fa tors—including the sluggish Ne Mexico economy, a stingy rate de sion by state utility regulators in 19 and repeated threats by the Albuque que city council to terminate PNM local franchise—have left PNM's pro its flickering. The dividend was su pended in 1989, after PNM posted big loss and management tried, u successfully, to sell the company. T NYSE-traded stock, which hit 39 1987, has dimmed to a recent 10⅝, 61% of book value.

But Mazzon thinks the Albuque

contract will be renewed, and he res New Mexico could recover er than the country as a whole. ntime, PNM is selling its excess acity to Anaheim, Calif. Lower rest rates and higher natural gas s should also keep the utility in the k. Mazzon figures PNM earned 35 ts a share in 1991; he reckons 67 ts in 1992 and thinks PNM will ore the dividend, 38 cents a share en it was omitted, by 1994. He s PNM as a $20 stock, earning $1.35 1994. —JASON ZWEIG

owder power

BOT CORP., headquartered in Bos- , is the world leader in carbon ck, a reinforcing agent used in ber products such as tires. Special- grades of the powdery substance go o inks, plastics, cables and coatings. e $1.5 billion (sales) company is o in other businesses, including stics concentrates and specialty mpounds; fumed silica; electronics aterials and refractory metals; safety ewear and disposable earplugs.

Cabot got powdered in the fiscal ar ended Sept. 30, 1991. Per-share rnings fell 38%, from $2.73 to 1.69. But analyst William Hyler of ppenheimer & Co. thinks the com- ny is primed to rebound. He notes at between 1988 and 1991 Cabot's pital program averaged close to 200 million a year, as it spent heavily n improvements and expansion. his will help to lever earnings in fiscal 992, when Hyler expects a recovery o $2.90 a share, and in fiscal 1993, hen he looks for $3.60.

Starting in 1992, Hyler expects apital spending to drop below $100 million a year. Result: Cabot will be- in to generate excess cash flow, hich could lead it to further shrink ts capitalization. At the end of 1985 here were 32 million shares; recently here were 18.2 million. Alternative- y, Cabot might slash long-term debt, currently more than 50% of capital.

Cabot's Big Board-listed stock re- cently made a 12-month high of 37¼, but that could just be the beginning of a breakout. The stock looks prom- ising at 13 times Hyler's fiscal 1992 estimate, and about 10 times his esti- mate for the fiscal year that starts in October.

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FORBES MAGAZINE'S Laucala ISLAND

e more things change . . ."

0 years ago in FORBES

OM THE ISSUE OF FEB. 18, 1922)

1922, the Addressograph was viewed a marvel of modern technology.

The U.S. leads the world in wages nd in purchasing power of wages ecause we lead the world in produc- on per man. . . . Foreign wages are w; raw materials are comparatively heap; and the scale of living is low. Ve cannot maintain our high wages, gainst low foreign wages, unless we ncrease and maintain production per an high enough to offset the wage ifference."

60 years ago

FROM THE ISSUE OF FEB. 15, 1932)

"Death has been unusually busy in igh places. . . . Julius Rosenwald, oremost upbuilder of merchandising y mail and an extraordinarily philanthropic, useful citizen; Paul M. Warburg, international banker of rare talents and a main creator of our Federal Reserve System; William Wrigley, shining example of American resourcefulness; and Lewis Cass Ledyard, stalwart lawyer, counsellor of the mighty and civic philanthropist—these, among others, passed on before 1932 was many days old. Each . . . devoted a generous share of his time and wealth to unselfish, worthy purposes."

"**Europe continues** to plan and build new supergiants of the air. Construction work on the new zeppelin LZ-129 is now being pushed rapidly at Friedrichshafen, Germany. The dirigible will be larger than the Akron and, therefore, the largest zeppelin in the world. It is being built for regular transatlantic service to the U.S. . . ."

50 years ago

(FROM THE ISSUE OF FEB. 15, 1942)

"**Even should Japan** occupy the Philippines, conquer Singapore, and effect further successes in the Dutch Indies, the war tide will set in against her this year. Russia will continue to decimate Hitler's forces, the latter will not be given opportunity to establish any effective wall of opposition while winter lasts. . . . Mastery in Libya will be won by the British."

"**Conversion examples** [peace to war]: Cash register machinery to gun forgings, carpetmaking to army cots, orange squeezers to bullet punches, egg poachers to percussion caps, hair curlers to airplane clamps, razor blades to primers. Machine tools are the key industry. . . ."

The first balloon tires ran on only 12 pounds' pressure.

25 years ago

(FROM THE ISSUE OF FEB. 15, 1967)

"**Today we are engaged** in a larger war [in Vietnam] than the Korean one and a war that's more expensive per annum than World War II. We not only don't need a mammoth army in Europe, but we cannot afford what the cost of maintaining it is doing to our trade imbalance."

"**One** of the more successful 'me-too' acts in the business world is New York-based J.C. Penney Co., whose Chairman William M. Batten has made no bones about trying to imitate archrival Sears, Roebuck. Under Batten, the former cash-and-carry soft goods merchandiser has plunged into hard goods, catalogs, credit selling and bigger stores."

10 years ago

(FROM THE ISSUE OF FEB. 15, 1982)

American Research & Development founder Georges Doriot.

"**Anyone looking** for the roots of professional venture capitalism in the U.S. need search no further than the courtly, demanding personality of Georges Doriot, who ran American Research & Development for its first 28 years. . . . Doriot also taught a course at the Harvard Business School. . . . 'Always remember,' warned Doriot, 'that someone, somewhere, is making a product that will make your product obsolete.' "

Here's a pointer culled from the careers of men who have attained notable success: Don't sit in your office during the hours "prospects" can be seen. Do your office work before or after the hours during which possible customers can be reached. This may mean adding an hour or two quite often to your day's work; but in times like this particularly, the securing of a satisfactory amount of business through the expenditure of an extra hour or two a day is not an unreasonable price to pay.

–B.C.Forbes

A Text ...

The fear of the Lord tendeth to life: and he that hath it shall abide satisfied; he shall not be visited with evil.
–Proverbs 19:23

Sent in by G. Gordon Lewis, Maputo, Mozambique. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Consider how hard it is to change yourself and you'll understand what little chance you have of trying to change others.
–Jacob M. Braude

In Biblical times, a man could have as many wives as he could afford. Just like today.
–Abigail Van Buren

Enthusiasm is the greatest asset in the world. It beats money and power and influence. It is no more or less than faith in action.
–Henry Chester

It is not necessary to hope in order to act, nor to succeed in order to persevere.
–William of Orange

Between two evils I always pick the one I never tried before.
–Mae West

Success: A process of becoming who you already are.
–Frank Potts

The toughest thing about success is that you've got to keep on winning.
–Irving Berlin

Being called very, very difficult is the beginning of success. Until you're called very, very difficult you're really nobody at all.
–Bette Davis

The only limit to our realization of tomorrow will be our doubts of today.
–Franklin D. Roosevelt

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Make yourselves nests of pleasant thoughts. None of us knows what fairy palaces we may build of beautiful thought—proof against all adversity. Bright fancies, satisfied memories, noble histories, faithful sayings, treasure houses of precious and restful thoughts, which care cannot disturb, nor pain make gloomy, nor poverty take away from us.
–John Ruskin

The future not being born, my friend, we will abstain from baptizing it.
–George Meredith

If there were in the world today any large number of people who desired their own happiness more than they desired the unhappiness of others, we could have a paradise in a few years.
–Bertrand Russell

Arguing with a fool proves there are two.
–Doris M. Smith

Security is the mother of danger and the grandmother of destruction.
–Thomas Fuller

Travel: Some good advice
From one who knows:
Take twice the cash
And half the clothes.
–Anonymous

We are now so badly deteriorated that three Frenchmen can evidently beat one Englishman.
–Horace Walpole

Englishmen will never be slaves; they are free to do whatever the government and public opinion allow them to do.
–George Bernard Shaw

Wall Street fashion reports: from junk bonds to junk equity

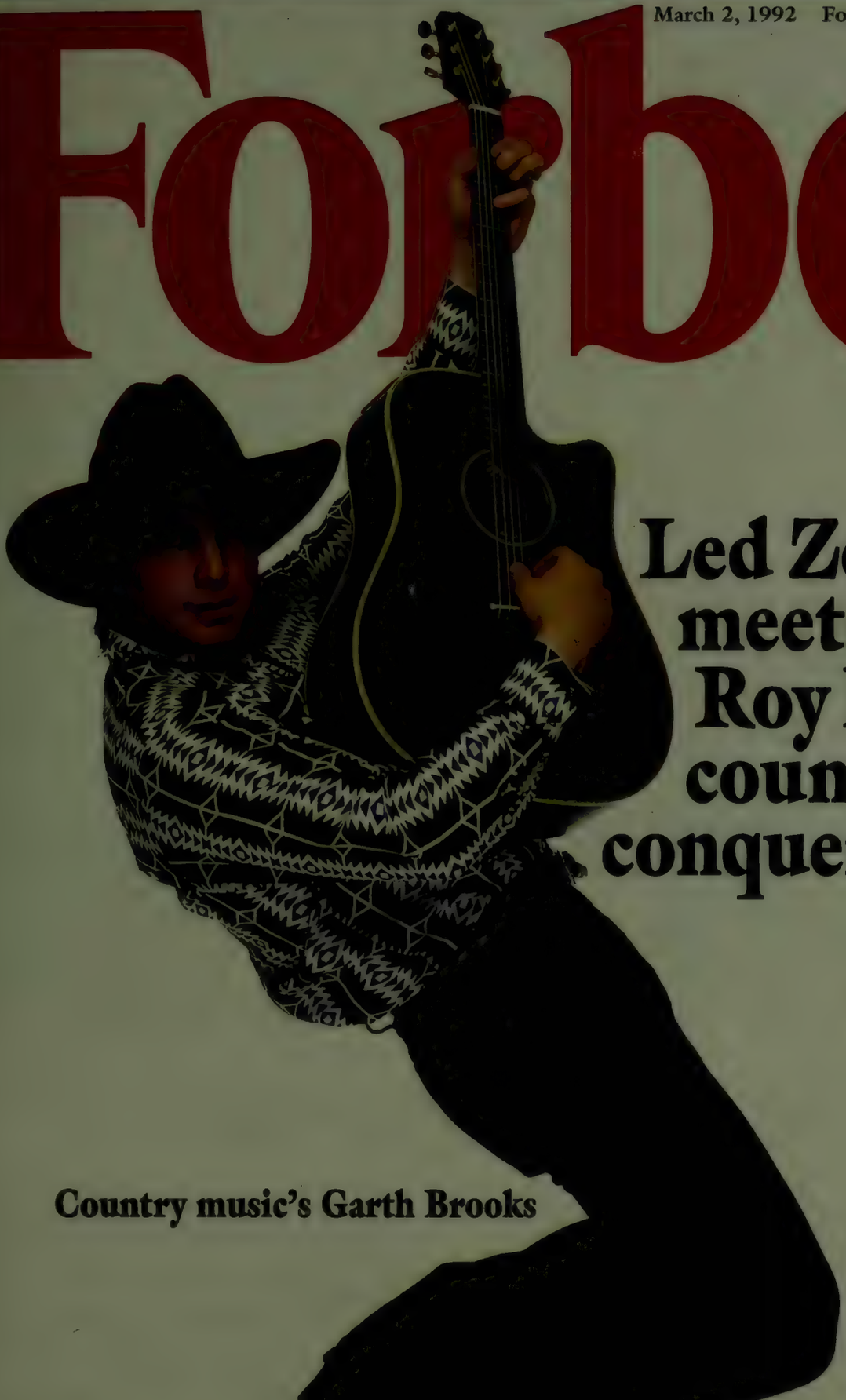
BES
2 March 2

Here come the real estate tax shelters again

3 9042 03329534 3

March 2, 1992 Four Dollars

Forbes



Led Zeppelin meets Roy Rogers... country conquers rock

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WE CAN'T PROVE
ARE BETTER DRIVERS
MAYBE THE

Ask the owners of one of the current crop of new luxury automobiles why he or she bought the car he or she bought, and you'll no doubt get a variety of answers.

Some will probably cite the image and prestige of the automaker. Others may wax poetic about the car's quiet operation and fine craftsmanship. Still others may offer up the concept that a car is just a car is just a car, so why not buy the one that costs less?

"When I took the car for a test drive, I knew the difference. I could feel it in the steering wheel... we were one." Dr. Jim Dacey, Owner 1980 BMW 320i

"The BMW brakes, accelerates and handles so well, it will correct your mistakes much quicker than a lot of other vehicles." Victor Bruno, owner BMW 850i Coupe.

"You sit up high in a BMW, there's glass all around. It's easy to see, you've got lots of visibility to take in what's going on around you. I like that." Don Orman, Owner 1969 BMW 2000A

And when you consider that from the beginning BMW has looked upon the driver as an integral, fully functioning part of the car itself, the human part of the equation which completes the car's mechanical system, it becomes clear rather quickly why a BMW owner confronted with the same question of why this car versus that car wou say, "When I get into the car, i like putting on a leather glo I become united with the ca and it becomes an extensi of myself." Howard Rogers owner 1991 BMW M5.

Improving the driver's ab ity means that every BMW sign begins not with a clea sheet of paper, but instead, with the driver.

Research conducted at the University of Freiburg, f

"The car feels strong. It handles well. It doesn' slip and slide. It's easy to drive. It's enjoyable to drive." Monica Dragul, Owner 1987 BMW 325ES

example, gives dramatic im portance to the kind of stee ing response that should b designed into your car.

This research co cludes that typical emergency correc tions are made no with a conscious thought but by aut matic, subconsciou

While these are all sound reasons for buying a home appliance, BMW believes that a car is not just a car, and a car with a premium price should do more than simply improve the driver's image.

It should improve nothing less than the driver's ability.

Our owners seem to agree.

"The car gives you a fair understanding of where it's at, at all times. It constantly gives you feedback through the steering wheel and other controls. It's very predictable." Jeff Parks, Owner 1988 BMW M6

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AT BMW OWNERS UT IF THEY BELIEVE IT, S A REASON.

lexes. And therefore that e single most meaningful urce of information for the ver concerning the behav-

In a BMW, you drive the car. It does not drive you." or Bruno, Owner 1991 BMW 735i/850i

r of his automobile, and the ndition of the road surface not, as generally supposed, s eyes, but rather, his steer- g wheel.

So rather than deprive the iver of road feel — as do e "dead" steering systems und in many of today's

"No matter how od a driver you e, it's hard to be 0% focused on iving all of the ne...having a r that can react hen you demand s critical in the ffic I drive in." elissa Hilton- lver, Owner 92 BMW 325i

assive, auto-piloted luxury edans — BMW's are de- igned with a positive offset teering geometry to better onnect the driver to the func- oning parts of the suspen- sion system through the steering wheel itself.

Thus providing him with all of the information needed to react instantly and confidently whenever the occasion happens to arise.

In other words, "The car is so connected to you that it barely needs any stimulus beyond your own thoughts to respond in the correct manner. That leaves more of your conscious energy available to apply to other areas of safety when you're driving." Jeff Parks, owner 1988 BMW M6.

"These cars have a remarkable ability to make the driver feel that the car is almost human. The car works with you....It practically talks to you through the suspension." Howard Rogers, Owner 1991 BMW M5

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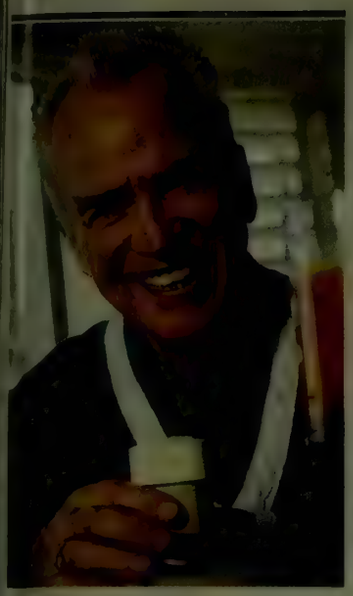

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Cover photo by Beverly Parker

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FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048.

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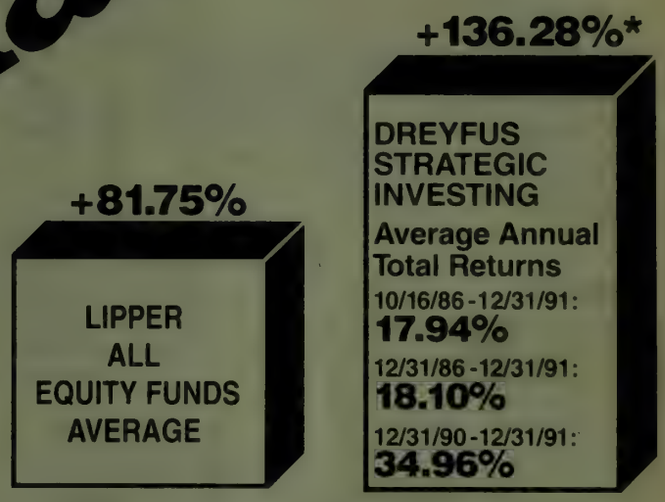

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PAID CIRCULATION OVER 735,000

Report from Denim & Diamonds

Edward Santalone

Newcomb and Gubernick

THE TWO CHARACTERS in this photo are Lisa Gubernick and Peter Newcomb, authors of our cover story on the country music boom. And I mean boom. January's NBC special featuring Garth Brooks, the ingenuous young entertainer on the cover, helped push the network to its highest Friday night ratings in over two years. In a decent week Brooks' records now sell nearly 340,000 units, putting $500,000 in his pocket.

Like all good stories, this one got started when the curiosity of a couple of reporters was piqued. Says Gubernick: "Every time I turned on the TV, I saw an ad for a special featuring this 'hot new country music star' named Garth Brooks. I had never heard of him. I asked Peter who Brooks was, and he told me that Brooks had sold 16 million albums and was doing better than Michael Jackson and Guns N' Roses. Then I found out about this place called Denim & Diamonds that had become the hottest new club in Santa Monica—playing nothing but country. We figured there was a story there."

The story took the reporters to Denim & Diamonds, where they were struck by the absence of the drug culture and the presence of people of many ages dancing *with* each other, rather than off in some self-centered time warp. "The sexual electricity is there," Gubernick and Newcomb write of the country scene, "but it isn't vulgar or violent." "The Wal-Mart school of music" starts on page 72.

Chinese treasure

SINCE FORBES' Asia hand Andrew Tanzer wrote his cover article about the capitalist revolution that is sweeping through southern China *(Aug. 5, 1991)*, several other publications—the *New York Times, Newsweek* and the *Economist* among them—have picked up on the story. In this issue, Tanzer takes a close look at the economic forces that propelled one rapidly growing Hong Kong company to set up shop in communist territory and why investment there is helping to buoy Hong Kong's stock and property markets despite the approach of 1997, when control of the colony reverts to Beijing. "Cantonese conquistadores" starts on page 56.

Billionaire in the making?

FORMER Drexel Burnham banker Leon Black and TWA Chairman Carl Icahn were old friends. But that didn't stop Black from outfoxing Icahn as the two quietly bought up the junk bonds of Gillett Holdings, owner of the Vail ski resort and other valuable assets. As she reported this interesting tale, it suddenly dawned on Phyllis Berman that with Gillett, Black is showing how he may make $1 billion from the big junk bond portfolio he and his French partners are buying. "Warming up for the big ones," by Berman with Jean Chatzky, begins on page 42.

Lawrence Minard

Managing Editor

SUSAN CROWE, EX-PERSONNEL DIRECTOR

AFTER 17 YEARS OF 60-PLUS-HOUR WEEKS, SHE QUIT.

For Susan Crowe of Chicago, the corporate lifestyle had grown stale. The time had come to work for herself. And she could afford to. Six years earlier she sat down with her Shearson Lehman Brothers Financial Consultant and came away with a diversified investment portfolio. Which included putting some assets into the hands of a top money manager. She began scouting for a company to buy, one that would embrace her love for sailing. And she found it in the seaside hamlet of Stockton Springs, Maine. Where, in January 1992, Sue and her husband, Robert, became the proprietors of BlueJacket ShipCrafters, makers of museum-quality model shipbuilding kits. Is there someplace you'd rather be? Maybe we can help you get there, too.

SHEARSON LEHMAN BROTHERS

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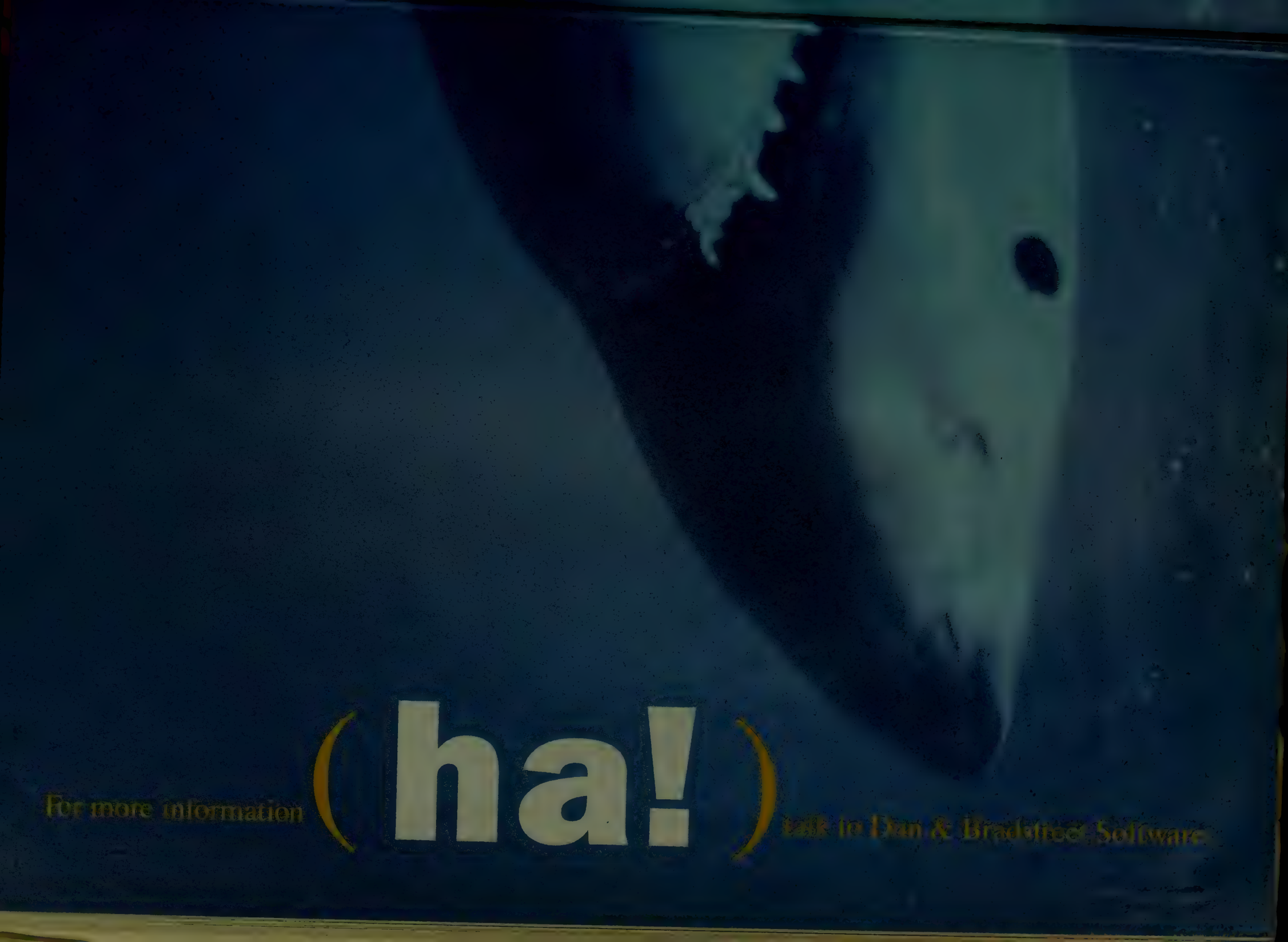
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Cliff-hanger

MARIO KASSAR'S Carolco Pictures has apparently escaped the Terminator—just barely. FORBES berated Kassar for leaving shareholders out in the cold while his independent studio churned out blockbuster action films with Arnold Schwarzenegger *(Terminator)* and Sylvester Stallone *(Rambo)*. Carolco's NYSE-listed shares languished around 8, slightly below its 1986 initial offering price *(Nov. 12, 1990)*.

Michelle Peleiler/Sygma

Carolco's Mario Kassar and friends
Jousting with the Terminator.

Then Kassar plunged into home video and television programming, while increasing the slate of big-event films. The stock reached 10⅞ last year on the wings of the summer hit *Terminator 2: Judgment Day*. Later, Kassar tried to merge Carolco with Live Entertainment, Inc., the home video distributor, of which it already owns 53%. The idea was that Live would supply badly needed cash to finance Carolco's films, and get back a steady supply of movies. After FORBES panned the deal *(Sept. 2, 1991)*, it collapsed. Live's NYSE-listed shares dropped from 15 to a recent 3⅞. Carolco, with total debt at $526 million, more than four times equity, ran astray of covenants on its bank loans. Its shares recently fetched just 2⅝.

In January, under pressure to refinance its debt, Carolco completed a tender offer for half of its $67 million in 14% junk bonds. That cleared the way for Carolco's shareholders—Pioneer Electronic of Japan, Canal + of France and Italy's RCS Group—to pump in $45 million cash. Each gets an additional seat on Carolco's board. Two hurdles remain: negotiating a new contract for Kassar and extending $50 million in bank credit to Live.

The bailout lets Carolco complete its upcoming movie roster led by *Basic Instinct*, a Michael Douglas thriller, and *Charlie*, a Chaplin biography starring Robert Downey Jr. In January Carolco let go 13% of its workers. But if the new movies don't take off, Kassar may find himself back at the bargaining table. "It's going to be touch and go," says Oppenheimer & Co. analyst Jessica Reif.

Quantum leap

"WE'RE GETTING benefit for shareholders without selling the store." So John Stookey viewed his 1989 recapitalization of Quantum Chemical Corp., the former unit of National Distillers. With the stock at a cheap 57, and raiders circling, Chairman Stookey borrowed $1.2 billion and paid shareholders a $50-a-share cash dividend. He then pushed total debt past $2.5 billion to expand Quantum's petrochemical businesses. FORBES reckoned that Quantum was poised for growth *(Mar. 6, 1989)*.

Then the notoriously cyclical market for polyethylene—used in everything from plastic bottles to food wrap—nose-dived. Yet producers kept pumping out the stuff, adding to industry overcapacity. In the last year polyethylene prices have dropped from around 50 cents a pound to about 30 cents. From a $247 million profit in 1989, Quantum went to a net loss of $123 million on sales of

John Stookey of Quantum Chemical
Can it survive on its own?

IS AMERICA'S WORK FORCE BANKRUPT?

Many business leaders believe the answer to that question is a frightening "Yes." They perceive an absence of commitment, a lack of maturity, and the inability to absorb training to be an alarming trend in much of today's youth.

But perception isn't necessarily reality. Consider the people who have served in the Army.

The Army enlists quality people.

The Army believes America's youth belong in school. Our recruiters are strong advocates for good study habits and high school completion. We believe it pays off.

Over 98 percent of new recruits are high school graduates. Over two thirds score above average on the Armed Forces Qualification Test, a standardized aptitude test.

These smart new soldiers then become students in the nation's largest technical training organization. With 18 major technical training complexes, the Army trains young adults in over 300 specialities, many that involve high-tech equipment and state-of-the-art technology. It is a system that graduates over 100,000 men and women each year.

Transferrable skills.

Researchers at Ohio State University found that 50 percent of the people recently separated from the Army had transferred the occupational skills acquired in the military to their civilian employment. This was slightly better than the rate of skill transfer by graduates of business schools and vocational/technical colleges. But beyond occupational skills, soldiers acquire other lifelong qualities.

As a matter of fact, a survey of hundreds of employers, many from Fortune 500 companies, clearly shows that they value the attributes soldiers develop in the Army and will hire young people who are reliable, disciplined and have responsible attitudes toward work.

How the Army Career and Alumni Program helps America.

This year about 150,000 men and women will leave the Army. As they return to civilian life, they bring with them self-discipline, motivation, and technical skills America's work force needs. To help them get a head start on their civilian careers, the Army established the Army Career and Alumni Program (ACAP).

At ACAP Centers around the world, the Army provides training in job search skills for soldiers and their families. Besides facilitating their entry into the civilian world, the ACAP program prepares soldiers to make immediate contributions in their new civilian jobs.

How ACAP can help your business.

While ACAP serves the needs of the soldier, it's also a resource for employers across America. Interested employers may enter their firms into the Army Employer Network Data Base and find out more about ACAP by calling 1-800-445-2049.

It makes sense to support Army recruiting and Army Alumni. The Army will continue to recruit and train high-quality young men and women because they are the key to maintaining America's defense. And the Army will continue to return to the civilian sector capable, mature, highly-motivated young people, ready to Be All They Can Be as part of America's work force.

Starting from "a clean
If you have nothing

You hear a lot of boasting these days about automotive engineers starting from scratch, with a clean sheet of paper. And, if it takes them three years to turn out a new car, that's what you get. The product of three years of thinking.

The new Porsche 968 is a result of quite the opposite philosophy. A new car which, by no accident, appears strikingly familiar. The product of over 40 years of fine tuning.

In 1948, Professor F. Porsche brought to life his dream car. Heralded then as, "The newest creation of one of history's most brilliant designers of sports and racing cars...a challenge to all designers," it began a legendary evolution.

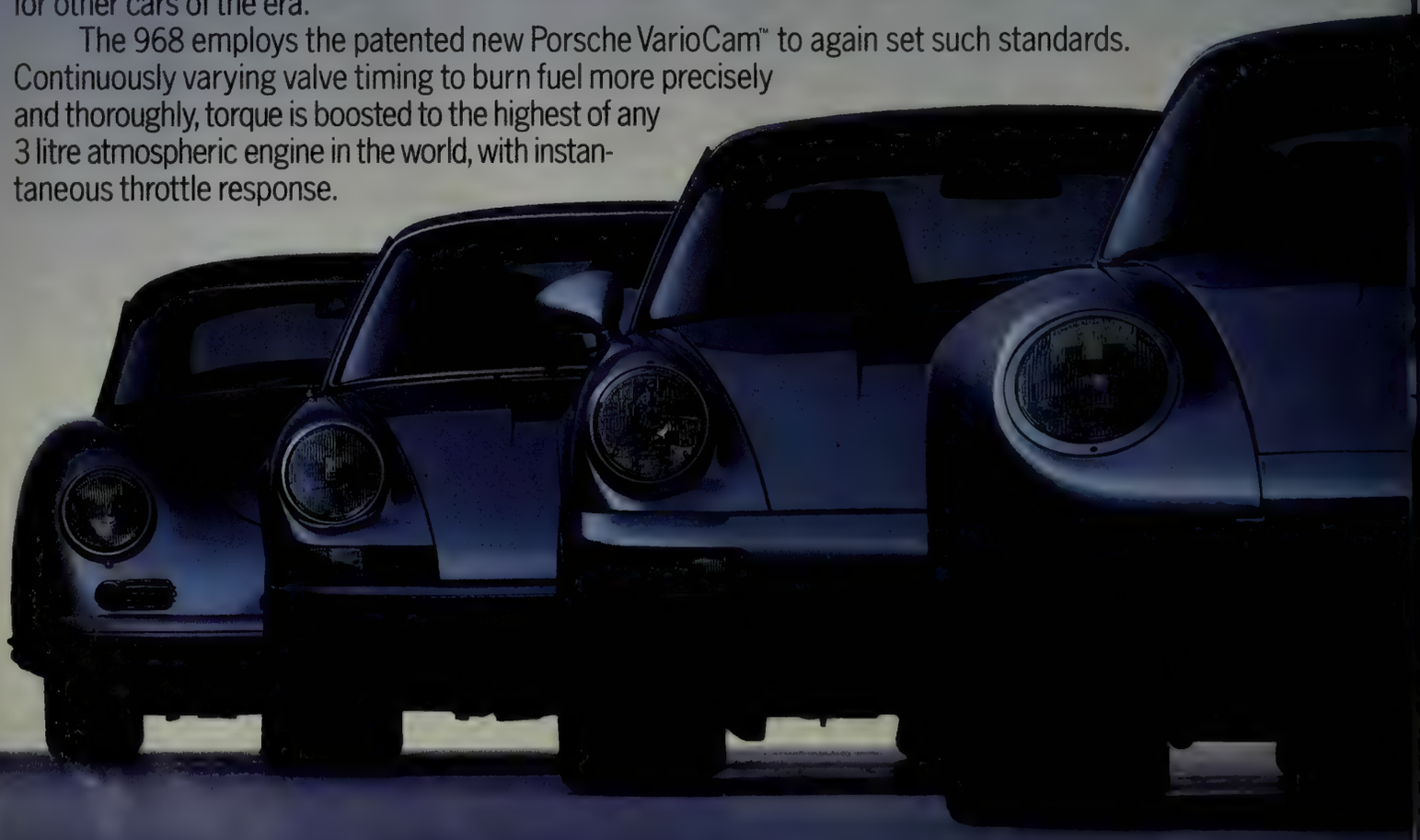
Every day since, this band of idealistic engineers has practiced what they call "polishing the diamond." The 96 is the most current iteration of this timeless process.

Reaping the technological and performance harvest of 22 new patents, the 968 melds the Porsche essence wi every last ounce of today's engineering potential. Imbued with unmistakable lines, it brings the classic family feature forward with futuristic aerodynamics.

By introducing the racebred concept of "internal aerodynamics" to a production car, meticulous sculpting of chassis details now speeds air through the body and suspension, reducing drag and lift while cooling racing caliber components such as the massive, internally vented disc brakes with ABS.

From that first, handbuilt car, the visceral Porsche character, power and agility have historically set benchmark for other cars of the era.

The 968 employs the patented new Porsche VarioCam™ to again set such standards. Continuously varying valve timing to burn fuel more precisely and thoroughly, torque is boosted to the highest of any 3 litre atmospheric engine in the world, with instantaneous throttle response.



Porsche 9

Estimates for the EPA Federal Test Procedure results for 968 coupe and 944S2 coupe.
©1991 Porsche Cars North America, Inc. Porsche recommends seat belt usage and observance of all traffic laws at all times.

ect of paper" is fine.
orth keeping.

A stunning new catalytic converter with thin, rare metal inner walls increases airflow for still more power. Yet, urcefully, the VarioCam and converter efficiency also lower emissions a dramatic 22%.*

Handling is heightened and refined as well. The famed transaxle platform with near perfect 50-50 weight balance ther buttressed for the added performance, yet detail changes have actually increased comfort.

If you were to drive an original Porsche 356, then climb behind the wheel of the new 968, the feelings and stim- ons would be much the same. Merely enhanced, with ever more potential and a feeling of confidence to use it.

The bloodlines would be clearly intact.

It's the type of marque personality that has become regrettably rare today. Left behind in an age when cars ected their creators. An age being kept alive at Porsche, and in the 968.

Call 1-800-252-4444 for more information or to arrange a personal viewing at your authorized Porsche er. A new Porsche doesn't come along every day. But then, when you start without compromise, you t have to keep ting over.

e next evolution.

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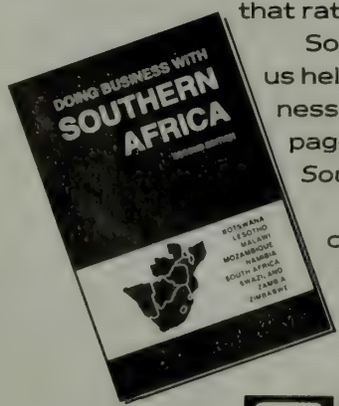
Announcing a new business approach to Southern Africa—the SAA "Stratosleeper". Each seat is custom-tailored to meet your needs, not the airline's. You get more room to stretch out, lie back and relax.

Best of all, you can now fly direct from New York again—so you'll arrive even more refreshed. Having enjoyed the luxury service and gourmet cuisine that rate us top with executives.

So get comfortable and let us help you get down to business with a copy of the 240-page *Doing Business with Southern Africa*.

For your free copy just call 1-800-722-9675. In New York (212) 826-0095 or see your travel agent.



SAA
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$2.5 billion last year. The company's net worth: negative $203 million. Recent stock price: 14½.

Can Quantum survive until polyethylene prices perk up, perhaps by 1994? After spending $1.2 billion, Quantum has some of the most efficient plants around. It ended 1991 with positive cash flow of $35 million. "We're dedicating our next round of cash generation to balance-sheet improvement," promises Stookey. Quantum will soon receive $150 million cash in tax refunds and an insurance settlement related to a 1989 plant explosion. And Stookey doesn't rule out selling the company. Occidental Petroleum's Ray Irani, for one, is shopping for a chemical producer, and Quantum is said to be on his list.

Waiting for the sun

NOVA CORP. of Alberta isn't the supernova FORBES expected it would be. In 1989 the Canadian firm's NYSE-listed shares looked cheap at 8¾. Why? The stock market, preoccupied by Nova's $3.5 billion in debt, was overlooking a vital fact: As Alberta's dominant natural gas carrier, Nova gets a government-sanctioned 13.5% minimum return, guaranteeing profits on that business *(July 10, 1989)*.

FORBES suggested Nova could fire up the stock by selling its 43% stake in Husky Oil to Husky's majority holder, Hong Kong billionaire Li Ka-shing. But Nova's then chairman, S. Robert Blair, waited for higher bids that never came. And he overpaid for a Toronto rubber and plastic producer just as petrochemical prices peaked.

After taking the helm in September, new Chief Executive J. Edward Newall, the former head of Du Pont Canada, finally sold Nova's stake in Husky to Li for $280 million—roughly half of what Blair had paid. Nova took aftertax charges of about $800 million, mostly to write off its Husky loss and to write down petrochemical assets.

The company lost some $780 million in 1991 on revenues of $2.6 billion. But in January Newall issued 35 million new shares at about $6. He'll use the money to pare Nova's $2.7 billion in debt. The offering was oversubscribed, boosting the stock to a recent 6⅞. —CURTIS SIMMONS ■

STEADY ON.

After we acquired Great Northern Nekoosa,
our plan was to pay down debt as quickly as possible. In part,
by divesting the company of non-strategic assets.

A recent case in point is the sale of an 80% interest in
two papermaking facilities and timberlands in Maine for
$300 million. It's money we'll use to further reduce debt. Which, in
turn, will bring our total debt reduction to $1.5 billion.

And considering we did this in less than two years,
we think it's an accomplishment worth noting.

We'll continue with our plan to strategically manage debt.
And we'll continue to focus on our core businesses.
Strengthening them. Adding value to them.

While affirming to our shareholders that
we are steadily on course.

Georgia-Pacific

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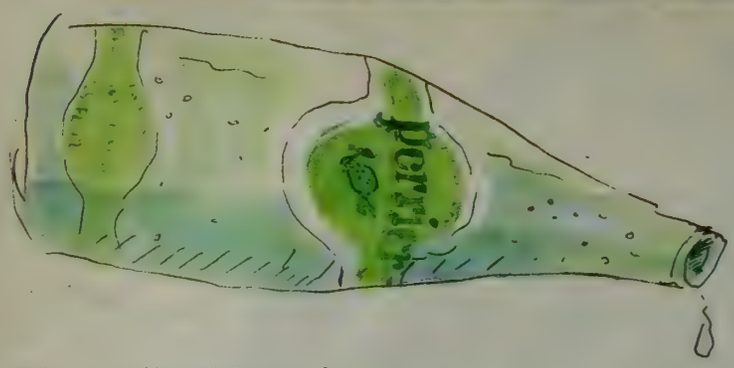

Illustrations by Laura Cornell

The Italian/French connection

GIOVANNI AGNELLI's surprise bid last month for Exor, which controls Source Perrier, the French sparkling water company, quickly ran into trouble. Antoine Riboud, the president of French food conglomerate BSN, countered the Italian industrialist's attack by backing Switzerland's Nestlé in its own unsolicited bid for Perrier.

Emerging as mediator in this battle of European industrial titans is Michel David-Weill, head of the Lazard banking empire. David-Weill's Italian and French connections are impeccable. He has worked closely for 20 years with Agnelli and is a director of the Agnelli-controlled Fiat SpA. But he is also friendly with BSN's Riboud. In fact, David-Weill arranged for Agnelli interests to take a "loyal" 5.8% stake in BSN in 1986 when the French company was facing a takeover threat.

In the fight for Source Perrier (now in the French courts), David-Weill at first backed BSN/Nestlé, but evidently would prefer that the two sides come to some agreement. One possible outcome: Nestlé will get most of Perrier, BSN will take Perrier's Volvic brand of spring water, and the Agnellis will get lots of cash by selling their stake in Perrier. And David-Weill will remain friends with all contestants.

–GREGORY VISCUSI

Aw, shucks

HOWARD BUFFETT, son of Warren, is leaving the 400-acre family farm in Tekamah, Neb. for the Illinois offices of Archer Daniels Midland. Young Buffett, 37, just signed on as corporate vice president and assistant to the chairman, heading investor relations. Buffett knows something about the corridors of political power.

As head of the Nebraska Ethanol

Authority & Development Board from 1989 to 1991, he was instrumental in pushing Congress to require the use of corn-derived ethanol in auto fuel.

Says Buffett, who has been on ADM's board of directors since October 1991, in his best aw shucks manner: "I guess I've just always liked corn and agriculture."

–PABLO GALARZA

Ricochet

STAFFERS at the Environmental Protection Agency's headquarters in the Waterside Mall & Office Towers in Washington, D.C. have gone to court to protest conditions inside the building. Workers there complain of headaches and nausea they claim are caused by poor ventilation, overcrowding and fumes emitted by the building's carpeting.

The building's owners hotly deny that their building falls under the definition of a "sick" building. "The air inside is better than the air outside," insists Charles Bresler, president of the building's management company. Nevertheless, a few years down the road the EPA plans to move—to another controversial building, the new federally financed Federal Triangle building on Pennsylvania Avenue. It was authorized in 1987 by Congress, at a cost of $650 million, as the home for, among other tenants, the nation's International Cultural & Trade Center. But in January the U.S. General Services Administration and Richard Darman, czar of the Office of Management & Budget, snitched it as general government office space for use, among others, by the EPA.

–R. LEE SULLIVAN

New man on the Coast

IN A SURPRISE MOVE, it now seems that an IBM executive, 48-year-old Joseph Guglielmi, will head up Taligent, the computer giant's joint venture with Apple Computer. Guglielmi, who currently runs IBM's PC software group, in Somers, N.Y., has been house hunting in Silicon Valley. The official announcement is expected early this month.

According to insiders, IBM hadn't planned on sending a senior man out West. But IBM was stung by reports that it is doing little more than funding Apple's pet projects, and so decided to insist that its own man be in charge. Apple had little choice but to agree.

–JULIE PITTA

Gag rule

INSURANCE regulators from Washington, Oklahoma, Idaho and other states are trying to stop insurance agents from saying nasty things about competitors. These states have issued bulletins citing unfair sales practices laws that the regulators say prohibit agents from, among other things, distributing news articles about competitors that could "injure" them. Other states will likely follow.

A gag rule? "There's a fine line between simply relaying valuable information to your customers and attempting to instill fear in them in order to get more dollars for yourself," says Washington's insurance

department spokesman, Ed Ives, in defense of the bulletins. But Samuel Weese, president of the American College, which awards professional degrees for agents, defends claims that aren't false or misleading: "Why shouldn't an agent take advantage of the fact that his company is rated triple A and another is only an A? That's good, clean competition."

–CAROLYN T. GEER

A made-in-the-U.S.A. BMW?

GERMAN AUTOMAKERS are seriously considering transferring production abroad—Volkswagen already has. The carmakers—BMW and Mercedes as well—fear the 6.4% increase, conceded in Germany's new steelworkers contract, agreed last month, will likely be repeated in the metalworkers' (including autoworkers) negotiations in spring. German metalworkers already get six weeks' vacation and put in 1,600 hours a year. Their long-term contracts bring their workweek down to 35 hours. (Toyota workers in Japan put in 2,200 hours a year.)

BMW is sniffing around for a car assembly site in the U.S. (speculators say South Carolina), Czechoslovakia and Spain. Mercedes has talked about Mexico as a possibility.

–JERRY FLINT

Losing it?

IS THE U.S. about to lose its edge in computer software? So fears Edward Yourdon, the publisher of *American Programmer*, a software journal. Yourdon claims in his new book, *Decline and Fall of the American Programmer* (Prentice Hall), that U.S. dominance of the software business is threatened by foreign countries with better-educated and cheaper labor.

Yourdon cites poor management, undisciplined workers, low productivity in U.S. software companies, and significantly lower wages paid to foreign programmers, as serious threats to a business that produces over $79 billion in revenues for U.S. firms.

Too alarmist? Perhaps. But U.S. corporations trying to hire programmers are finding that fewer and fewer native-born Americans are applying for such jobs. –STEVE KICHEN ■

'24 Mouton Rothschild isn't something you forget. We were at Claire's summer place.

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Call your nearest embassy

SIR: Re "Aerospace & defense" *(Jan. 6)*. I was reading the article on Bell/Textron when I was brought up short by the following anachronism: "Bell gets access to Canadian government export finance as well as promotion help from that country's embassies around the world (U.S. embassies are reluctant to get involved this way)."

U.S. embassies are leaning so far forward to help U.S. business, we're almost falling out of our foxholes.

–WILLIAM CLARK JR.
Ambassador of The United States of America
New Delhi, India

A monopoly is a monopoly

SIR: Utilities are forcing wholesale and retail customers to purchase electricity from their power plants by denying independent power producers and consumers access to their transmission systems ("Wolf in sheep's clothing," *Dec. 23, 1991*). As a result, captive customers are required to subsidize electricity producers that charge prices in excess of the price produced in competitive markets.

–SAMUEL C. RANDAZZO
Emens, Hurd, Kegler & Ritter Co.
Columbus, Ohio

Mathers on Mathers

SIR: Mathers Fund was once a growth fund with an excellent record ("Voice of caution," *Dec. 9, 1991*). Van der Eb changed it to a market timing fund three years ago by selling the stocks. This brought equity holdings down to about 12%. Since, the Dow industrials have appreciated by some 40%, depriving shareholders of millions of dollars of potential appreciation. Before I left one year ago, I twice made a strong plea that equities be substantially increased. Both recommendations were rejected.

–THOMAS N. MATHERS
Founder, Mathers Fund
Winnetka, Ill.

The spirit lives on

SIR: Re "Selling toys to buy toys" *(Feb. 3)*. Yes, Darrow School is bitter about the unsavory Hakuta transaction, but the real Shaker spirit remain intact in the buildings and life o Darrow School.

Original keeper of the Shaker legacy

–BRADFORD A. GARDNER
Trustee and graduate
Darrow School
New Lebanon, N.Y.

Helping immigrants

SIR: Re "Havoc in Haiti—A warning" *(Fact and Comment, Jan. 6)*. Immigration is a federal decision but the costs are borne by the local property tax base and are not reimbursed by the federal government. If we are going to be the land at the end of a refugee river, then we need a national plan to assimilate, retrain and employ these new masses.

–GRAYDON K. CAYCE
Houston, Tex.

Deferred annuities

SIR: Deferred annuities are an appropriate financial product for someone who wants to defer taxes for a period of, say, six years or more ("A paranoid's guide to tax increases," *Jan. 20*). The reference to "steep fees and costs" applies to some deferred annuities, but there are also many available with modest fees and costs.

–ROBERT W. SAUNDERS
Bellevue, Wash.

No simple solution

SIR: "Platform madness" *(Jan. 20)* overlooks two GM failures in marketing: appeal of marque differentiation, and options in technology differences. Reducing the number of platforms will reduce costs but little else.

–RICHARD P. REECE
Berlin Heights, Ohio

The case for lower taxes

SIR: Re "Back to basics: lower rates = more revenues" *(Fact and Comment, Feb. 3)*. In arguing that tax reductions historically generate both revenue increases and heightened economic activity, I've often felt like a lone voice. I'm glad to know there are at least two of us.

–PHIL GRAMM
(R–Tex.)
United States Senate
Washington, D.C.

Two sides of a coin

SIR: Our paper defines middle income in a variety of ways and focuses on transition rates up and down ("Middle-class 'meltdown'?" *Jan. 20.*) Our major conclusion is that both upward and downward transitions were more prominent in the 1980s than before. This produces our major conclusion, that, in fact, the middle class is shrinking.

–GREG J. DUNCAN
AND WILLARD RODGERS
University of Michigan
TIMOTHY M. SMEEDING
Syracuse University
Syracuse, N.Y.

Doing it with mirrors

SIR: Re The Informer *(Feb. 3)*. I received the Gabelli tape and reacted differently in that I assumed that Mr. Gabelli was trying to encourage his shareholders to remain with him even though his recent performance has been less than outstanding. Why would anyone remain in these funds and pay higher fees when others are bringing higher returns? The tape, rather than exhibiting hubris, was a weak attempt at reassurance.

–RUDOLPH H. STORCH
Columbia, Md.

No relations

SIR: Credit Suisse does not have nor have we considered a credit relationship with Arochem International ("Know thy collateral," *Feb. 3*). We are not a participant in a Chase-led loan syndicate to the company.

–EDGAR K. MITCHELL
Member of senior management
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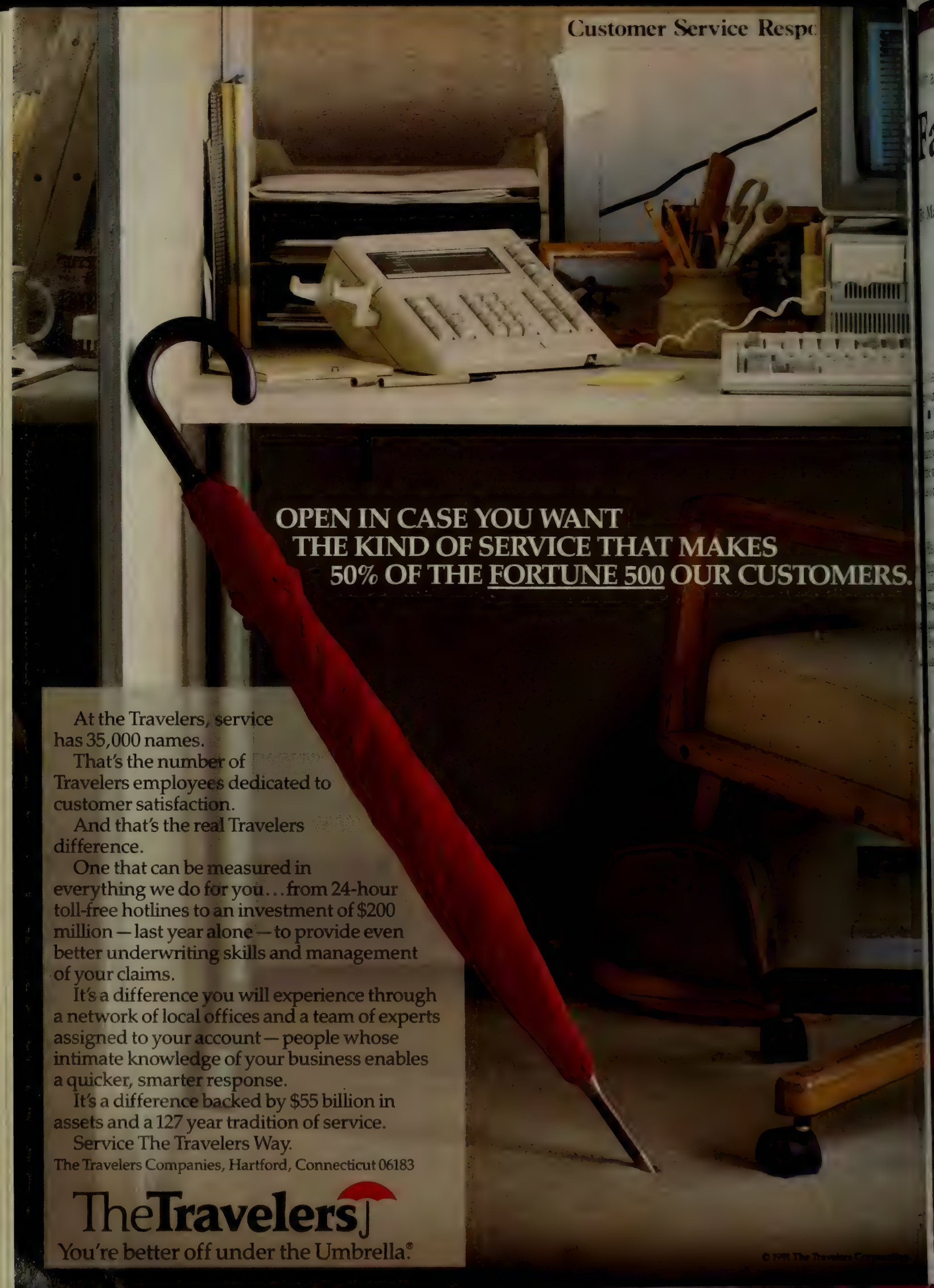
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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

GETTING ITS TAX ACT TOGETHER

IF THE ADMINISTRATION wants its tax bill to do genuine good, it must stick with these changes:

■ The oomph of the capital gains tax cut would be vitiated by making the untaxed portion subject to the alternative minimum tax, meaning that after a certain amount, the tax rate rises, ranging from 24% to 30% instead of 15.4%, as originally proposed. Rate reduction should be clear-cut.

■ Treasury had wanted to boost taxes on most new annuities, hurting savings and the insurance industry at a time when rabbit punches aren't needed. Leave annuities alone.

■ The White House had also wished to tax financial companies on unrealized gains from their inventoried securities at year's end. A levy should be paid on actual profits, not paper ones. That's only fair and sensible.

TAX CUT UKASE

HERE'S A WAY President Bush can partially cut the too high capital gains tax without waiting for Congress. He can decree that capital gains be indexed for inflation. The meaning of the word "cost" in calculating any capital gain is not defined by law but by regulation. Legally, the Executive Branch can rule that the cost of an asset be adjusted for inflation.

Thanks to inflation, the effective capital gains tax rate can reach 75% or higher for assets bought more than a decade ago. Tax cut opponents would grumble, but not too loudly—who would want to argue that you should pay a tax on what are fictitious gains? There are tens of millions of homeowners, not to mention investors, who would quickly understand the President's point of view.

THIS IDEA

George Tames/NYT Pictures

of an instant capital gains tax cut is the brainchild of (would you believe it?) an economist, Paul Craig Roberts, with the Center for Strategic and International Studies. A former Treasury official in the first Reagan Administration and one of the godfathers of Reagan's income tax cuts, Roberts is that rarity who understands the importance of incentive in making the economy tick.

THOSE WHO THINK DEMOCRACY IS PERMANENT

in the once communist countries of Eastern Europe and the former Soviet Union should ponder a Gallup poll just conducted in ten nations, ranging from Albania to Russia, for the European Community. The findings: People of these countries are deeply dissatisfied with democracy.

Russians, Poles, Hungarians and Czechoslovaks are most disillusioned. In only one country, Lithuania, is a majority of people pleased with democracy.

Poles Sour on Capitalism

Walesa Accuses West of Preying on Country

–The Washington Post

There is no mystery behind this unhappiness—the harsh economic environment and the feeling that better times are nowhere in sight. Prices and unemployment are rising. Says Gallup's Managing Director Gordon Heald, "If these levels of personal pessimism continue over the next two to three years, I think there will be some coups."

Don't dismiss this as hyperbole. Even Czechoslovakia is brimming with speculation that the country may fracture. And it was the only nation in this region that had a strong democracy between the two World Wars. Parliamentary government collapsed everywhere during the 1920s and 1930s: Poland, Hungary, Bulgaria, Albania, Romania, Lithuania, Estonia, Latvia. These failures came from internal events, not outside aggression.

U.S. and West European response to this crisis has been inadequate. We haven't shown these countries how to achieve the four principles necessary for economic growth: sound money, low taxes, property rights and minimal government interference in

setting up and running businesses. In fact, some of our own economists are not even aware of these basic tenets.

The U.S. and the European Community should be opening their markets to these nations.

While certain American groups are working effectively to pump in capital and—almost as critical—business knowhow, our overall effort has been a fraction of what it should be.

The U.S. responded creatively to the chaos in Western Europe and Japan after World War II: Marshall Plan, Bretton Woods International Monetary System, General Agreement on Tariffs and Trade, NATO, etc.

But our policies today for beleaguered Eastern Europe are too reminiscent of the isolationism of the 1920s.

MORONIC MOVE BY ALGERIA'S MILITARY

MUSLIM FANATICS must be secretly celebrating the Algerian army's canceling that second round of parliamentary elections, which the fundamentalists would have won. Now they are bidding for power the way the Ayatollah did in Iran—through violence. They will eventually take over and be under no moral or military pressure to face the voters.

Pascal Parrot/Sygma

While few in the West (or in Mideast governments) were happy over the prospect of these bad guys' winning a popular vote in a nation as important to both Europe and North Africa as oil-and-gas-rich Algeria, cooler heads should have realized that the fundamentalists' stay in office would have been a short one. Like communism, religious fanaticism has limited long-term electoral appeal.

Religious extremists are temporarily strong in Algeria because of their unceasing opposition to the long-entrenched, corrupt socialist regime. But once the incumbent crop of legal looters had been removed, the fundamentalists' appeal would have waned. The armed forces would have had considerable popular support as a guarantor that the new regime face the electorate again a few years down the road.

Now, it is an all-or-nothing contest between an increasingly unpopular army and Ayatollah-like street fighters and guerrillas. Democracy will be the loser, as will Algeria's moderate neighbors. International terrorism will have a new, dangerous base.

ALIEN IDEA

CASH-STRAPPED state and local governments can take a cue from Mexico and Pakistan on building and refurbishing their infrastructure, particularly highways and bridges.

These two countries are mobilizing private capital to do the job instead of putting up the money themselves. In Mexico the private sector finances, builds and can operate toll roads for up to 20 years. The concession usually is leased to the group that will most quickly return the road to the government. The government sets the toll prices.

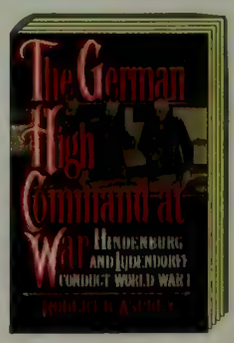
In Pakistan, a four-lane highway is being constructed from Lahore to Islamabad. The majority of the road is owned by Daewoo Corp., the rest by the government.

This way, governments don't have to put up the money, and the infrastructure gets built.

Why can't the U.S. do something like this? Drivers would get new roads and greater convenience: Technology now exists enabling cars to be equipped with computer chips that will charge tolls without autos' having to stop at a booth. They could be billed at the end of the month or pay in advance. Charges could even go on their credit cards.

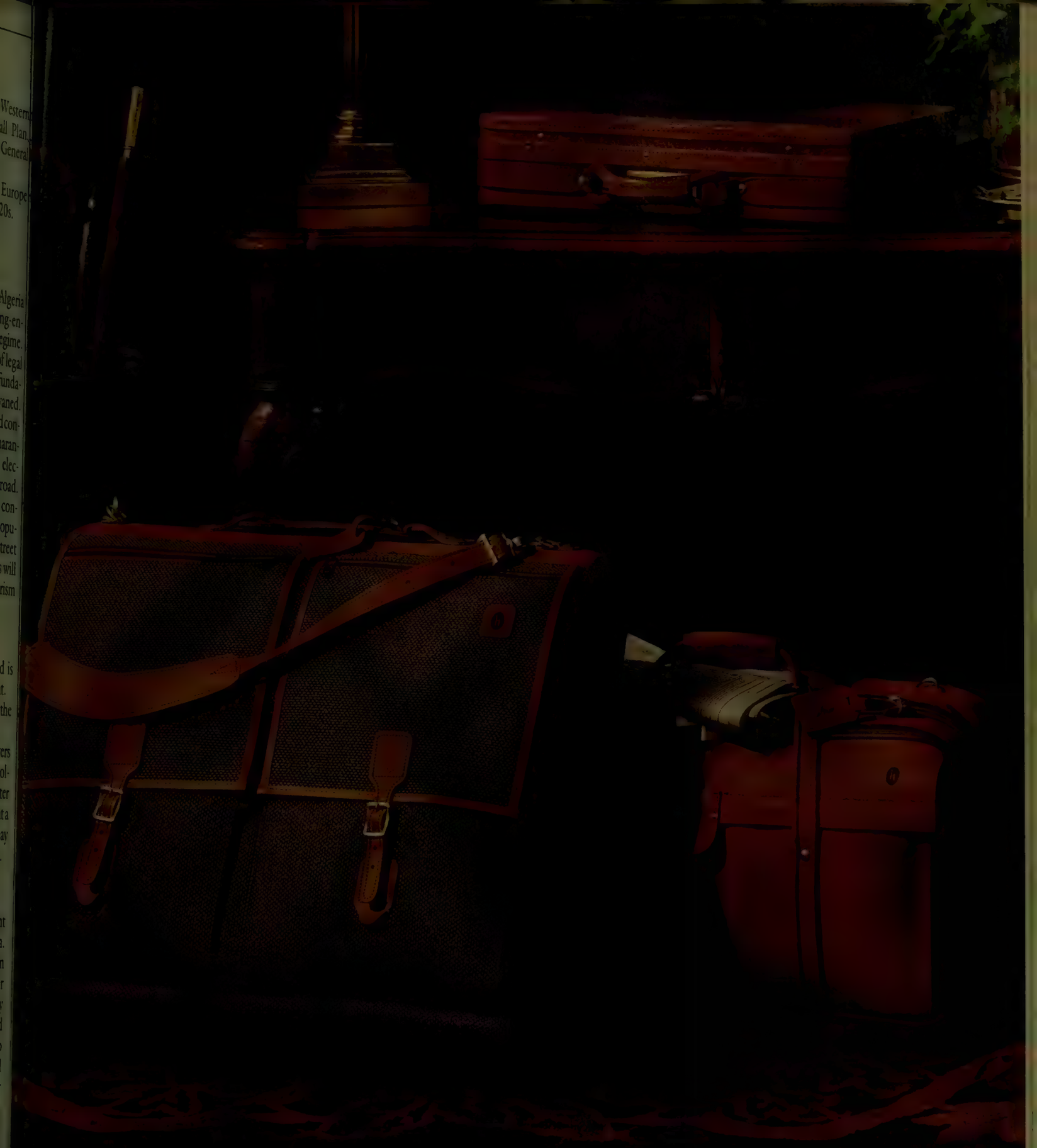
FONT OF EVIL

The German High Command at War—Robert B. Asprey (William Morrow & Co., Inc., $27). Ably deals with General Erich Ludendorff, the godfather of Nazism, Communism and World War II. During WWI, with Field Marshal von Hindenburg pretty much a front man, Ludendorff effectively commanded German armies first on the Eastern front, then for all theaters. By 1918 he was virtually the behind-the-scenes dictator of Germany. He believed in war for war's sake. For him it was overwhelming victory or total defeat. As a grand strategist, though, he was a failure. He sanctioned submarine warfare, which didn't knock out Britain but brought in the U.S. He utterly underestimated the impact of American intervention. He dismissed the effectiveness of tanks. He approved sending the exiled Lenin in a sealed train to Russia to undermine the pro-Allied government.



At the end of 1917 Germany had de facto won the war: It could have dug in on the western front and offered generous terms to the remaining belligerents, engineering a peace that could have left it the continent's dominant power with vast territories already annexed from Russia. Instead, Ludendorff gambled everything in 1918 on "total" victory, launching one ferocious offensive after another. Encouraged morally and militarily by growing American might, the British and French buckled but did not break. Having no fallback position, the German high command lost its nerve when the offensives failed. To cover his and the military's culpability in the debacle, Ludendorff and others promoted the "stab-in-the-back" idea that the on-the-verge-of-victory German army was undermined by "treacherous Jews and cowards" in high places. This conspiracy theory was a staple of Hitler's rise to power.

Excerpt: *When Karl von Treutler at the kaiser's direction pointed to the danger of America entering the war, Hindenburg in "his quiet jovial way" assured him German submarines would prevent America from landing troops in Europe. Ludendorff reacted more succinctly: "I don't care two hoots about America."* ■



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Other Comments

False Reality

THE PRESIDENT'S proposal does not cut the capital gains rate on large realizations by anything like the 45% advertised. The change is likely to push many people into the alternative minimum tax if they realize large capital gains, resulting in a marginal cap gains rate of 24% or 30%. This will strongly discourage people from realizing capital gains. Since capital gains tax is avoided if the asset is passed on as an inheritance, many will simply keep them locked up in their current form. There will be no flood of realizations.

At a true 15.4% cap gains rate, realizations might have doubled from $160 billion in 1988-89 to over $300 billion in 1992-93. This would have provided a tremendous [boost to] the economy, which might have grown by 3½% to 4% per year, roughly in line with the eight prior recoveries of the post WWII period. With this kind of growth, the budget deficit under Bush's policy assumptions could have been virtually eliminated by 1997.

–LAWRENCE A. KUDLOW, chief economist, Bear, Stearns & Co. Inc.

Future Rooted in the Past

TOM HARKIN, BOB KERREY? Bill Clinton? Jerry Brown? Pat Buchanan? Could *any* of the current crop of would-be Presidents outline a post-cold war American foreign policy with depth and clarity? Could any of them discuss global geopolitics with a concept for the future rooted in a reflective sense of recent history?

In *Seize the Moment* Mr. Nixon attempts to "recast" American foreign policy "to cope with this radically new situation" of "a world in which the U.S. is the only superpower." In so doing he argues forcefully for an American internationalism that is anything but radically new. Indeed, what is most striking about Nixon's charge to seize the moment, nearly all of which is sensible and sound, is the continuity of his counsel.

–RICHARD PERLE,
New York Times Book Review

Just Say No?

YOU MAY be an "information junkie"—a consumer whose education, professional standing, and fascination with politics have led to an addiction for newspapers and magazines. Because the bills come one at a time, perhaps you've never stopped to figure out how much a serious information habit costs.

Let's suppose you're really hooked. If you take five newspapers—the *Washington Post*, the *New York Times*, the *Wall Street Journal*, the *Washington Times* and *USA Today*—you pay $703.60 a year. Take four newsweekl lies—*Time*, *Newsweek*, *U.S. News & World Report* and the *Economist*—add another $252.71. Figure in a few monthly magazines and a trade publication—as well as the $250 to $300 to get CNN, C-Span and other cable-TV channels—and you're looking at well over $1,000 a year.

What Washington may really need is a newsletter that gives advice on how to deduct the cost of information on your tax return.

–LARRY VAN DYNE,
Washingtonian

In America, anyone can become President. That's one of the risks you take.
–ADLAI STEVENSON,
presidential candidate,
1952, 1956

Overkill

THE KAISER and his publicists had been bleating about Germany's God-given right to occupy a place in the sun and to achieve Great Power status commensurate with God's chosen people. Ironically, she was on the verge of accomplishing these ambitions by peaceful means. She was milling more steel than Britain, France and Russia combined, her electrical consortiums dominated Europe, her chemical consortiums produced most of the world's dyes and were leaders in many other manufactures. Her mining consortiums owned large interests in France, Belgium and other countries. What was there to gain by waging aggressive warfare?

–ROBERT B. ASPREY,
The German High Command at War

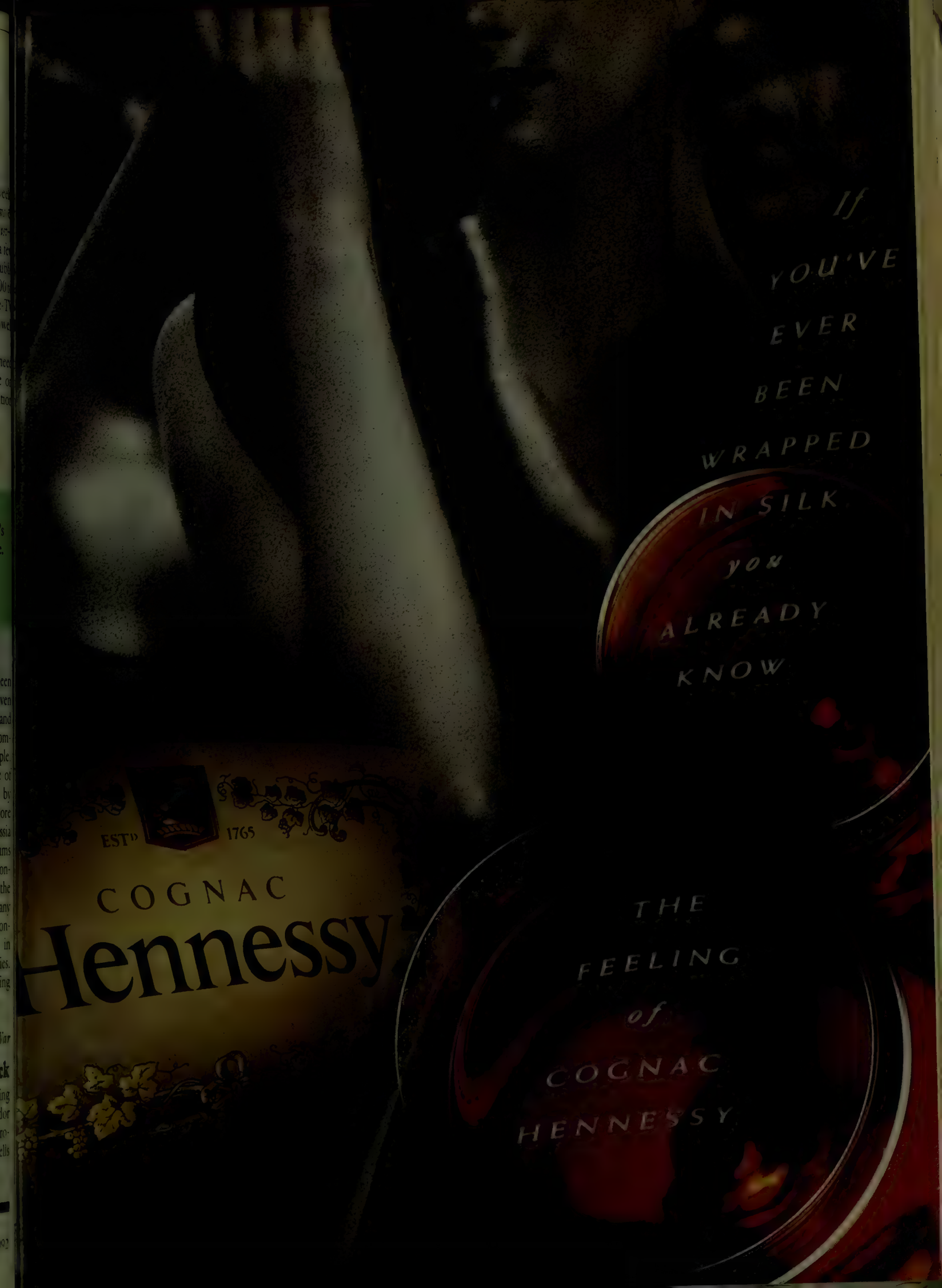
Ya Gotta Have a Gimmick

IF YOU ARE in the process of selling your house, it pays to have the odor of baking bread wafting about as prospective buyers arrive. The house sells every time.

–VIRGINIA BENTLEY,
The Virginia Bentley Cookbook

Drawing by Stevenson, ©1992 The New Yorker Magazine, Inc.

"Brandy, coffee, decaf, herb tea, or cran-apple?"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Lacking a long-term plan, the grasshopper sang a different tune when winter came.

Tomorrow's comforts require today's preparation.

Take the fable of *The Grasshopper and the Ants*– a story that shows long-term planning is wise. Especially when you're looking ahead to retirement. Merrill Lynch mutual funds may enable you to do the planning you need. And you can keep plans current since our portfolio managers se to anticipa market an economic changes.

The fox quit the scene before his reward ripened.

Patience is a soun investmen principle– as well as a virtue.

The Merrill Lyncl Basic Value Fund is one examp of how patience may bring rewards.

The Fund's management looks for stocks they believe are undervalued and whose value may appreciate. This strategy, management believes, can help achieve the objectives of capital appreciation and income.

Two goats stubbornly refused to take a different path and neither reached his final destination.

A change of course may prove to be the wiser path.

Because we understand your needs may change, we offer a wid range of mutual funds including money market funds, bond funds, equity funds and global funds.

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mutual funds, the moral is: hen add to your wealth.

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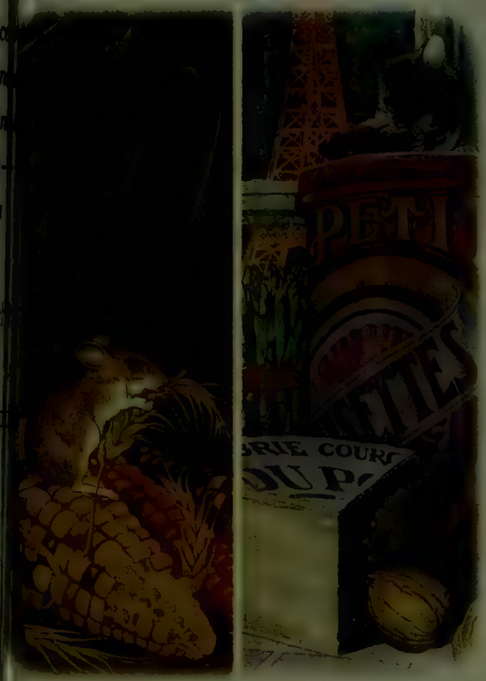
As the world has grown smaller, opportunities ve grown larger. For this reason Merrill Lynch ers a wide range of global and international tual funds, including Merrill Lynch EuroFund, Merrill Lynch Pacific Fund and Merrill Lynch Global Allocation Fund.



The city mouse ventured out in the world and found a veritable feast of opportunity.

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

TODAY'S SOUTH AFRICA

THREE DAYS packed with meetings, lunches, dinners and interviews in Cape Town, Johannesburg and Pretoria do not qualify one as an expert on any country, let alone South Africa. But a recent trip of that description made by Kip Forbes, FORBES' vice chairman, and me did enable us to form some strong impressions, many of which contradict some of the stereotypical views encountered in the U.S.

Everyone agrees that enormous progress has been made under the leadership of President F.W. de Klerk. Nelson Mandela, leader of the African National Congress (ANC), is one who fears that all of these antiapartheid moves may not be irreversible. Mandela—tall, eloquent, impressive—told us he feels it essential that de Klerk remain in power, although he fears the right-wing opposition may oust de Klerk.

Our breakfast meeting with Mandela was encouraging. He said the ANC was rethinking its former attachment to socialist and further-left economics in view of the complete failure of communism in the old U.S.S.R. and Eastern Europe. The ANC may well realize that other methods must be used to increase black South Africans' share of the national assets.

David Sandison/Leadership-Johannesburg

Nelson Mandela, Caspar Weinberger: Looking beyond stereotypes, promoting peace.

Foreign Minister Pik Botha, with whom we also talked, believes that the right-wing opposition to President de Klerk is a minority that will not win, but he worries that not enough credit is given abroad to the enormous progress his government has made in eliminating apartheid. He and Mandela agree that the agenda is not yet complete, but when so much wrenching change has been accomplished in such a short time, clearly some encouragement should be given by the West.

There are great advantages to South Africa and all of its people in reopening full relations with the West. It was thus particularly disappointing when Mandela stated he would not be willing to meet with Prime Minister Lubbers of the Netherlands during a recently proposed visit. There are political risks for leaders willing to go to South Africa, and leaders such as Mr. Lubbers need encouragement, not a cold shoulder. Moreover, it is disappointing that the ANC has insisted de Klerk break his 1989 election pledge to secure white approval for major constitutional changes.

The South African government is heartened by President Bush's lifting of principal U.S. sanctions last summer, but it would like more consultation with the U.S. and the repeal of the Gramm Amendment, which blocks South African access to the IMF. Even though South Africa was hurt by the sanctions, it still increased its exports substantially each year the sanctions were in full effect.

South African businessmen profited greatly from U.S. companies' divesting their South African interests. In the past few years, responding to strong stockholder and other protests, U.S. companies sold out—usually at bargain prices—to local purchasers. One businessman described it as "one of the U.S.' most successful aid programs." New South African owners will not want to sell back to previous U.S. owners, but some will agree to joint ventures.

South Africa is basically a good country for U.S. and Western investment. It is rich in resources of all kinds, including human resources. If we do business there, we can contribute much to its future progress and, more important, to its continued efforts to eliminate apartheid.

President de Klerk summed up his goal: "To secure a future for every South African, free of oppression, secure in the ability to prosper through hard work." This has also been the guiding philosophy of Dr. Anton Rupert, founder of one of the country's oldest and largest industrial organizations, the Rembrandt Group. Long before it was fashionable, Dr. Rupert was urging jobs for all, including blacks, and the right of all to own property and participate in the life and history of the nation.

One of the South African government's great hopes is for South Africa to become the gateway to Africa, increasing its trade with and help to many other African countries, to everyone's benefit. We should, of course, help them to complete their agenda of full freedom for all. That would be better than criticizing and penalizing them for not going faster along a very difficult trail. ■

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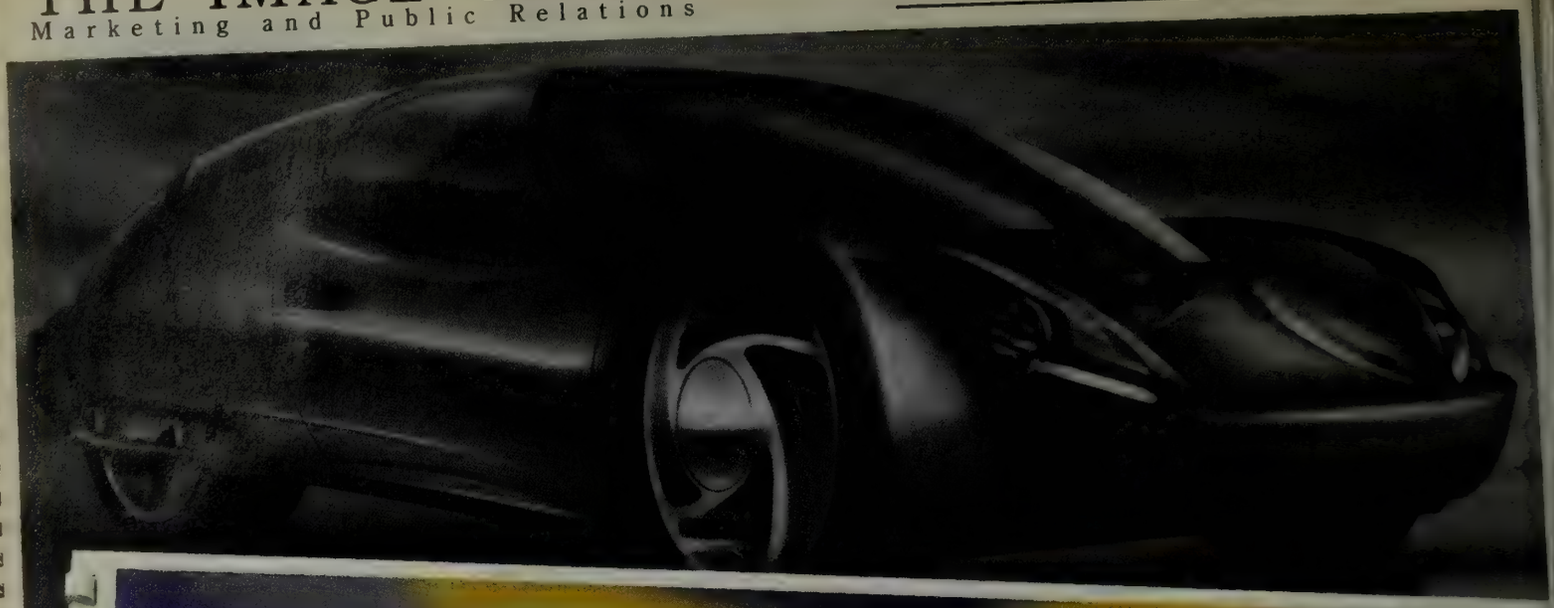

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America's capital news on trade

IT IS WORTH repeating, again and again this election year, that for all the doleful drumbeat from the protectionists who claim that American industry is down and cannot compete internationally, the fact is that U.S. competitiveness—as measured by exports—has never been stronger. Despite the general slowdown in the world economy, U.S. merchandise exports continue to grow at around 8% a year and hit around $425 billion last year.

What is even more impressive is that the growth in exports of high-tech capital goods has recently been even faster, rising from a 10% annual rate last year to an annualized rate of over 20% for the last three months. Momentum, in other words, seems to be building. As Federal Reserve Governor Lawrence B. Lindsey has just pointed out in a key op-ed article in the *Wall Street Journal,* capital goods now account for a much larger share of a U.S. manufacturing sector that is growing, not shrinking, as Richard A. Gephardt, Tom Harkin and other neo-protectionists would have one believe. Capital goods are now close to 40% of total manufacturing output, up from around 30% in the 1960s. Overall, manufacturing, at around 23%, accounts for a slightly larger share of gross domestic product than it did in the Sixties.

Yet more good news on the competitiveness front: At 45% of total production, close to double the proportion of capital goods is now exported than used to be the case.

Success is spreading far and wide

EVEN MORE IMPORTANT is the way that exporting has spread through manufacturing. The international dominance of such U.S. companies as Boeing, General Electric, Du Pont, Hewlett-Packard and IBM is well known. But here are a handful of other examples among many successful U.S. exporters:

- After Boeing, the U.S.' second-largest single net exporter is Caterpillar Inc., which has been scoring success after success with its massive tracked earth movers (costing up to $1 million apiece), notably in Japan. Caterpillar, which exports half its output, is resisting a strike by the United Auto Workers (FORBES, *Feb. 17*) but is refusing to increase its offer of a 16% increase over three years, plus new job security promises, for fear it would have an impact on its international competitiveness.
- Cincinnati Milacron Inc.'s exports of machine tools increased 53% in 1991 over the year before, particularly to the aerospace industry in the Far East and Europe. And its exports of plastics injection molding machines, where it is the largest U.S. maker, grew by no less than 78%, notably to Germany and Brazil.
- Telecommunications equipment exports have more than doubled in the last five years, to a total of $8.8 billion. Harris Corp.'s communication sector's exports of telephone switches and TV broadcast equipment, especially to Mexico and the Far East, has grown from 30% of sales in 1990 to 40% of $451 million sales in 1991; the aim is to increase this proportion to 50%.
- Even a small company such as 170-employee Multiplex Co. Inc. of Ballwin, Mo., which makes refrigerated food dispensing equipment costing $12,000 to $14,000 per unit, has tripled its exports in the last five years, mostly to Europe and Asia. Sales in the U.S. have been flat, but exports now account for a third of the company's sales.

Other than autos, there's a trade surplus

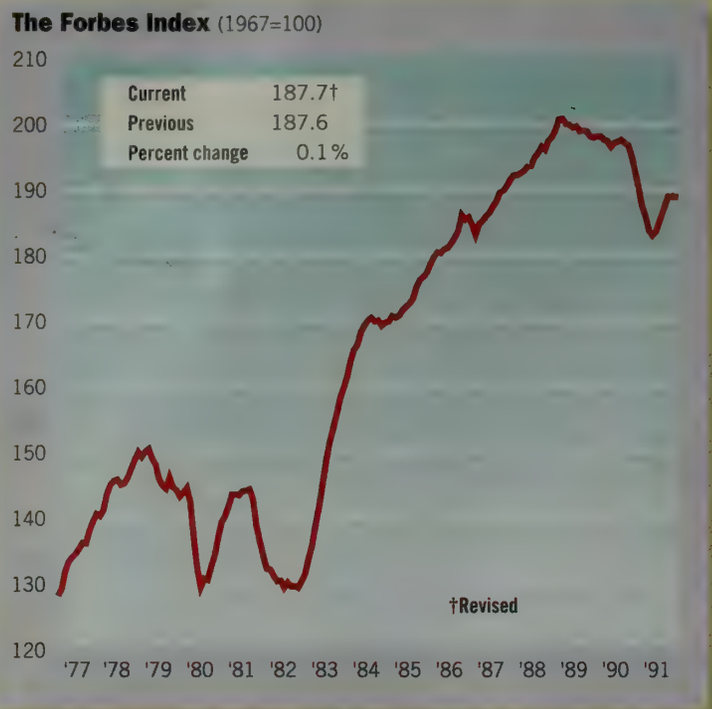
IN A FLAT TIME for manufacturing orders in the U.S., export growth has been the main bright spot—and more or less the sole contributor to such economic growth as there has been. According to the National Association of Manufacturers, the export boom in manufactured goods created about 500,000 new jobs in 1991.

More than just the depreciation in the dollar under way since the mid-1980s has been at work. Productivity in U.S. mechanical engineering increased over 5% a year on average between 1979 and 1989, faster than all the country's international rivals but Japan, where engineering productivity increased by close to 7%, but from a lower base. France saw 3% improvement, while German engineering productivity rose by only a little over 1% a year on average.

It is illuminating to juggle some of the numbers that make up the U.S. trade deficit. Helped by slow overall economic activity, the merchandise trade deficit is now down to about $65 billion. Take out of that oil imports of around $60 billion and the U.S. automotive sector's deficit with Japan, and it becomes evident that the rest of U.S. manufacturing now has a healthy net surplus of perhaps $20 billion with the rest of the world. Point that out to the next protectionist you meet.

THE FORBES INDEX

BY TIMOTHY DODMAN



There's one silver lining in the consumer's reluctance to spend. In December Americans reduced their nonmortgage debts by $1.7 billion. That leaves some untapped borrowing capacity that could turn into auto and appliance purchases in the future. Part of the decrease may be attributed to uneasiness about the future, but lower interest rates are indirectly playing a role. With the low returns available from savings accounts and CDs, consumers are deciding that it makes more sense to use their savings to pay off older, higher-rate loans.

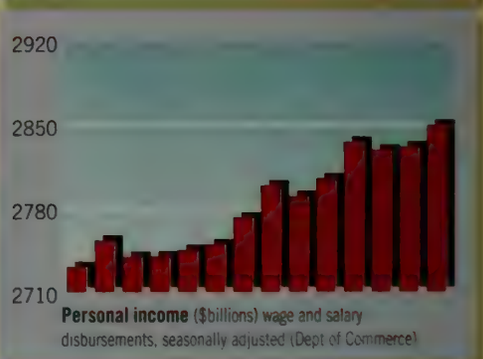
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.5%
Auto sales year to date vs 1991[1]	Ward's Automotive	–0.9%
Index of leading indicators Dec vs Nov	Dept of Commerce	–0.3%
Trade balance 12 months ended Nov 1991	Dept of Commerce	–$65 bil
All-commodity producer price index Dec vs Nov[2]	Dept of Labor	–0.4%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	0.3%
M2 (3-month change)—annualized growth[3]	Federal Reserve	3.1%

[1] U.S.-based manufacturers, excludes imports, as of 1/30/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



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A BLENDING OF ART AND MACHINE

As investors got sheared by overpriced junk bonds in the latter 1980s, so they now stand in danger of overpaying for the equity issues that are hitting the market as companies deleverage.

Junk equity

By Richard L. Stern and Tatiana Pouschine

Robert Grossman

FOR EVERY SEASON there is a financial fashion. In the 1980s debt was in vogue and the smart people on Wall Street made fortunes trading debt for the public's equity. Now debt is passé and equity is all the rage, and the same smart people are making second fortunes by selling equity back to the public, at much higher prices than what they paid just a few years ago.

The game is called reverse leveraged buyouts, and no one plays it better than the people at Kohlberg Kravis Roberts. In 1987 and 1988 KKR bought four companies—Duracell International, AutoZone, Owens-Illinois and Stop & Shop. KKR's total equity investment in these four companies was about $690 million. Last year KKR took all four public, racking up an estimated $4.4 billion, mostly in paper profits for itself and for fellow investors in its buyout pools. That's a 600%-plus return in five years. And we're not even counting at least $100 million in fees KKR took for itself before the companies went to the market.

That's not all. KKR and its coinvestors have made something like $4 billion from two other deals not on the 1991 new-issues list: RJR Nabisco and Safeway. Not counting the fees, the principals at KKR keep a fifth of the $8.4 billion in profits, or about $1.7 billion on paper so far.

Lesser LBO lights are faring nicely, too. At recent stock prices, Clayton & Dubilier partnerships are sitting on cash and paper worth $444 million from two 1991 issues—industrial pump maker BWIP Holding and the Scotts Co., a fertilizer and grass seed company. Clayton & Dubilier's original equity investments? Under $30 million.

In two relatively small 1991 deals—Alta Health Strategies, health care cost consultants, and Zilog, in integrated circuits—Warburg, Pincus also has done brilliantly, turning an original investment of about $27 million into $160 million on paper in less than six years. And so it goes.

Behind these stunning profits is not theft but the clever use of other people's money. The KKRs of the world have arbitraged brilliantly between two markets—debt and equity—over several years. Back in the 1980s investors were hungry for high-yielding junk bonds and allowed the dealmakers to use minimal cash down payments and lots of debt to take companies private. In the early days of the LBO craze, the dealmakers even bought equity on the cheap because the markets, particularly in terms of cash flow, were undervaluing the stocks of the publicly traded companies they took private. Only later in the 1980s did the buyout game get so crowded that assets were overpriced and debt undercollateralized—junk bonds really did become junk.

Now the situation has reversed, and the sheep are coming back to be shorn. With interest rates low and stocks high, the new-issues market is providing the dealmakers with the cash to wipe their balance sheets clean of some of the high-priced junk debt and to take huge profits on their small equity investments as the market applauds their reequitization.

Sell them while they're hot

Company/dealmakers	Offer date	Price: offer	Price: recent	% change from offer: stock	% change from offer: S&P	P/E: at offer	P/E: current	Market value ($mil)
Duracell International/KKR	5/1	15	33⅛	121%	8%	83	41	$3,702
AutoZone/KKR	4/1	11½	40	248	11	23	56	2,770
Owens-Illinois/KKR	12/11	11	13⅜	22	5	NA	35	1,591
International Specialty Products/GAF	6/24	15½	15	–3	8	29	24	1,498
MGIC Investment/Northwestern Mutual	8/6	24	40¼	68	5	10	15	1,183
Enquirer/Star Group/Boston Ventures, Macfadden, NAPI	7/19	14	20¼	45	7	8	NM	893
York International/Citicorp Investments, Prudential	10/1	23	29¼	27	9	NM	NA	847
Stop & Shop/KKR	11/22	12½	17	36	12	16	22	833
Royal Appliance/management	8/6	15½	55½	258	8	16	38	699
Kaiser Aluminum /Maxxam	7/11	14	12	–14	7	3	6	687
Filene's Basement/Greylock, Oak, Whitney	4/30	14½	34½	138	10	28	47	681
Amsco International/Welsh Carson Anderson & Stowe IV	3/26	14	23½	68	9	20	28	666
R P Scherer/Shearson Lehman	10/11	18	28⅜	58	5	26	41	657
Horace Mann Educators/Gibbons Goodwin van Amerongen	11/14	18	21¼	18	8	NA	NA	615
BWIP Holding/Clayton & Dubilier	5/23	14½	25	72	10	11	26	607
Vigoro/Sam Zell	5/20	14	24⅜	74	5	8	NA	487
Joy Environmental Technologies/Adler & Shaykin	11/15	17	14⅝	–14	9	55	NA	461
AnnTaylor Stores/Merrill Lynch	5/16	26	22⅛	–15	10	NM	74	406
Warnaco Group/Spectrum Group, management	10/11	20	31⅜	57	10	NA	NM	389
Health Mgmt Associates/First Chicago, Prudential, management	2/5	16	31¾	98	17	29	24	355
Interstate Bakeries/Metropolitan Life, CS First Boston	7/24	16	16⅞	5	11	13	9	353
Homedco Group/Robertson Stephens	5/2	15	27⅛	81	6	39	24	335
Presley/management	10/10	10	15⅞	59	9	53	NM	294
Amphenol/LPL Technologies	11/8	9¼	8⅝	–7	5	NA	15	282
Sonic/MAST Resources	2/28	12½	31½	152	6	46	49	245
Caldor/Odyssey Partners, DLJ	4/24	21	17½	–17	7	NA	NA	244
Zilog/Warburg Pincus	2/27	11	22¾	107	6	11	20	244
TakeCare/Hillman family	3/20	19	25¾	36	5	12	14	232
Vans/McCown De Leeuw, Chesterfield	8/22	14	24¾	77	7	48	NA	222
Carlisle Plastics/management	5/15	11	12⅛	10	12	NA	NA	217

Recent prices as of Feb. 7. NA: Not available. NM: Not meaningful.
Sources: Securities Data Co.; Standard & Poor's; company prospectuses and financials; Forbes.

In a hot market, highly leveraged companies can go public at rich multiples—and then go still higher. These are the 30 largest reverse LBO deals of 1991, measured by market value of common shares outstanding.

All told, some 65 reverse LBOs hit the market in 1991, raising $5.7 billion. The table shows 30 of the biggest deals.

Consider one of KKR's deals: Duracell International Inc., the battery maker. KKR bought Duracell from Kraft in June 1988 in a $1.9 billion leveraged buyout, funded heavily by junk bonds. The buyout price came to a seemingly unmanageable 15 times Duracell's earnings before interest and taxes, or EBIT, a good proxy for free cash flow.

Last May KKR took Duracell public at $15 a share. This price put a total valuation on the business—debt outstanding plus market value of equity—of $2.6 billion. The sum came in at 11 times earnings before interest and taxes. Still, KKR cleaned up, because Duracell's cash flow had nearly doubled, and the steep leverage in the deal magnified KKR's profits as equity holder.

By historical standards, 11 times cash flow is a particularly high price for a mature business like a battery manufacturer. But note that the initial offering raised $500 million, used to retire some of Duracell's junk debt. Remember: Debt is out these days and equity is in. Deleveraging the company improved the market's perception of Duracell, further increasing the value of the company's equity. Now Duracell stock is trading at 33. Even after unloading 7 million of its shares in an offering in October, KKR is sitting on a Duracell stake worth another $2 billion.

KKR should thank its lucky stars that the public markets don't work the way private markets do. Businesses trade privately for more like eight times free cash flow. Had KKR received for its four companies what a private-market buyer would pay, its profit would have been $750 million, less than a quarter what KKR has made so far by selling equity to the public.

Now notice something scary in the table. Since going public, many of these reverse LBOs have appreciated sharply. Zilog, Filene's Basement and Sonic have all more than doubled.

What does that do to EBIT multi-

ples? Let's look again at Duracell. At its recent price, Duracell is being valued in the marketplace at an astounding 18 times earnings before interest and taxes. Yet investors keep buying. Many of these companies are fundamentally sound, but the market is even bailing out dealmakers who overpaid and overleveraged to the point where operating earnings failed to cover interest expense. Some examples: Robern Apparel, a skiwear importer, and Fruehauf Trailer, maker of truck trailers.

This is scary because it suggests that the financial pendulum is again swinging too far. Just as the public began to pay too much for junk bonds as the 1980s wore on, so it now appears investors are beginning to pay fanciful prices for equity. Equity, in effect, is becoming junk equity.

Consider Gulfstream Aerospace. The maker of top-of-the-line business jets was purchased in 1990 from Chrysler by Teddy Forstmann and partners of his Forstmann Little & Co. Price: $850 million, of which $100 million was equity. Gulfstream's sales dropped—from over $1 billion in 1989 to $887 million last year. Gulfstream's operating income of $21 million doesn't begin to cover its $73 million in interest expenses.

No matter. Forstmann is planning to sell 5.75 million Gulfstream shares (19% of the company's equity) to the public. Price: $20 a share, which values the company (equity plus debt) at a truly incredible 61 times EBIT cash flow. If the issue sells, Forstmann and his investors will have booked paper profits of $270 million on a $70 million equity investment.

Another example of expensive equity replacing junk debt: Burlington Industries plans soon to retire most of its LBO debt by selling equity at a price that would value the business at 13 times operating income *(see story, p. 66)*.

Is the market near a peak? There's no telling. Financial fads often last longer than seems possible. But here's one warning sign: In several of the more recent reverse LBOs, the insiders themselves have been converting some of their personal holdings into cash. When the smart money is selling, public investors need a very good reason to be buying. ■

In outmaneuvering Carl Icahn for control of George Gillett's assets, Leon Black is striding toward billionaire status.

Warming up for the big ones

By Phyllis Berman with Jean Sherman Chatzky

NOW THAT THEY are about to win the bidding for Executive Life's $6 billion (par value) junk bond portfolio, how do Leon Black and France's Crédit Lyonnais, his partner, intend to exploit what they are buying? For some clues, check out what Black is doing with George Gillett Jr.'s Gillett Holdings. If we're right, Gillett will become a pattern for restructuring deals that will make 42-year-old Black a billionaire before the decade is up.

The insolvent Gillett Holdings has managed to hold on to several television stations, a meatpacking plant and Vail Associates, which owns and operates the Colorado ski resort.

Leon Black knows Gillett, the man and the company, well. As a young investment banker at the late Drexel Burnham, Black played a key role in Gillett's purchase of a single television station, WTVT in Tampa, Fla., for an incredible $385 million in 1987. The price was so high the annual debt service requirements exceeded the station's annual gross revenues.

A few months later, Black again helped facilitate Gillett Holdings' purchase—at a very high 15 times cash flow—of a group of television stations that another Black client, buyout king Kohlberg Kravis Roberts, wanted to spin off from Storer Communications. Michael Milken tried to convince Gillett that the deal was fundamentally unsound. But in the end Gillett ignored Milken and bought the Storer stations, financing the purchase with junk bonds at rates as high as 17.5%.

By late 1989 Gillett Holdings was

Swesey/Gamma-Liaison

Jeffrey Aaronson

in trouble, and by August 1990 it had defaulted on some of the junk bonds used to finance the Storer deal.

Last spring Black visited Gillett at his Vail resort. Black, who walked away from the Drexel wreckage with around $50 million (FORBES, *Mar. 18, 1991*), knew Gillett Holdings owned some valuable, if overencumbered, properties and had already scooped up a good chunk of Gillett Holdings' senior junk bonds at deep discounts. He now approached Gillett with the idea of providing equity to help Gillett avoid Chapter 11.

George Gillett would pour out the details of his troubled operation to Black. Because information is a scarce commodity in the junk bond business, that knowledge was pure gold for Black. It put him in a position to know whether to buy up more of Gillett Holdings' bonds and its then heavily discounted bank debt—which he proceeded to do.

Before long, Black had bought up enough of Gillett Holdings' debt to block any restructuring proposal he didn't like. In his first offer to bondholders, George Gillett hoped to exchange Gillett Holdings bonds for cash and new securities, and to hold on to a majority stake. His eye on Vail and Gillett's other assets, Black quickly vetoed that proposal. But Gillett flexed his muscles too, reminding Black and others of his political connections in Colorado, and threatened to pursue a cram-down plan.

Eventually Black and Gillett agreed upon a plan. In a deal offered to Gillett's creditors in January, Black's Apollo fund is proposing to inject $40 million in new equity into Gillett Holdings. In exchange, Apollo would receive between 57% and 62% of the equity in the restructured company; the creditors would reduce their claims to $600 million or less, from about $1 billion. George Gillett would be allowed to keep 5% of his company. Black has also offered Gillett a minimum of $30,000 a week to run the operation. The plan is likely to go through within the year.

In thus parlaying his control of Gillett's debt into majority ownership of its equity, Black has managed a beautiful end run around his close personal friend and former client Carl Icahn, the TWA chairman and junk bond investor. Icahn, too, quietly bought up a lot of Gillett's bonds. But while Black went after the senior bonds and bank debt, Icahn bought the most junior layer of the debt. When the hands were shown, Black held the strongest cards.

Under the Black/Gillett plan, Icahn would receive at least 15% of the restructured Gillett Holdings' equity. But Icahn is furious. Black granted George Gillett a veto over any sale of the company's assets over the next three years. Icahn figures that with this veto, Black and Gillett can keep the company's value down and force Icahn and other minority owners to sell out to them.

Icahn says that in addition to the big salary, Black has also agreed to give Gillett an option to buy Gillett Holdings' meatpacking operations at $22 million. Yet, according to some insiders, the meat operation could be worth some $40 million today.

Some people close to the Gillett Holdings restructuring figure that George Gillett stands to end up with as much as $75 million from the restructuring. Grumbles Icahn, who put his TWA into Chapter 11 in January: "Why should Gillett have the right to demand a $30,000-a-week salary, plus an option to repurchase bondholders' equity in a few years? In TWA, where I am in Gillett's place, I gave up all my stock, get no salary and have to put in another $35 million.

"I'm voting against it [the restructuring plan]," Icahn adds. But if Black and Gillett can show a Colorado court that their plan offers Icahn and other creditors more than they could get in a liquidation, it is likely that Icahn will be forced to go along.

As we said in the beginning, Gillett is probably the first of many similar restructurings that Leon Black will conduct. Black and his French bankers, Crédit Lyonnais, successfully bid for Executive Life Insurance of California's $6 billion (par value) portfolio of junk bonds, which will give them controlling positions in all the important restructurings of the next few years. Black and the French will pay $3.25 billion. But someone who knows the portfolio intimately says it is worth at least $4.25 billion today—and will in all likelihood be worth over $6 billion by the end of the decade if Black can turn Executive Life's debt positions into controlling equity stakes, as he did in Gillett's case. "This is the steal of the century," says this source.

Under his agreement with Crédit Lyonnais' subsidiary, Altus, Black is likely to receive 20% of all portfolio gains. He will also get fees for any deals he restructures, and he will have a captive clientele for Crédit Lyonnais' investment banking arm, which he runs. "In a few years," says one former Drexel banker, "Leon Black could control more assets than KKR does today." Billionaire status is well within his reach. ■

George Lange/Outline

Dueling financiers Carl Icahn (left) and Leon Black (right) flank Vail owner George Gillett Jr. **With control of Executive Life's huge junk bond portfolio, can Black do unto others as he's done unto bondholder Icahn and equity owner Gillett?**

Real estate tax shelters will return to haunt the tax code if a little-noticed bill goes through.

"A done deal"?

By Laura Saunders

WILL THIS YEAR'S tax act bring back real estate tax shelters?

At first glance, the answer is no. To have a vibrant shelter industry, large numbers of taxpayers need to be able to deduct current losses from real estate against other sources of income. The 1986 "passive loss" rules make that impossible, and the tax proposals in President Bush's State of the Union address don't seem to alter the picture very much. The President would lift the passive loss restrictions, but only for developers who build and manage projects. Not much opportunity for shelters there.

Or is there?

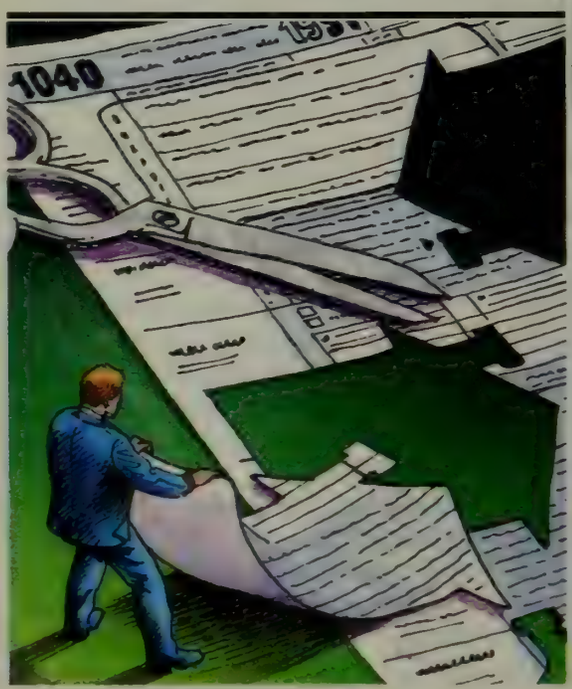
Evidence is accumulating that the Bush proposal is just the first step of what could become a tax shelter free-for-all. The vehicle for this full-scale retreat from 1986's elimination of most shelters is a bill, H.R. 1414, introduced by Representative Michael Andrews (D-Tex.) last year. The bill has already attracted 325 sponsors in the House and 40 in the Senate, and is sure to be considered in this year's tax package.

H.R. 1414's stated aim is to allow writeoffs of losses on real estate only for certain real estate professionals. But look closely at its definition of these people. It's so broad you could drive a bulldozer through it.

The bill would repeal the passive loss rules not just for builders and developers but for anybody who spends more than 500 hours a year—less than 10 hours a week—and half his or her working time in "real property operations."

What are real property operations? Let us quote. Real property operations, says the bill, are "any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, brokerage, appraisal, and finance operations."

So we're not just talking about developers with mud on their boots. Also able to use passive losses would be Realtors, mortgage loan officers, lawyers who handle house closings, brokers who sell real estate syndications, accountants who specialize in auditing them and Wall Streeters who trade Ginnie Maes. "There are some years when even I have done enough work for real estate companies to qualify," says Thomas Ochsenschlager, a tax expert with CPAs Grant Thornton who has studied the bill.



Jean-François Allaux

The really exciting possibilities stem from how income and losses can be matched on joint returns. According to H.R. 1414, a plastic surgeon with a spouse who dabbles for 50 hours a month in real estate could shelter income from a medical practice. Maybe the surgeon even has a couple of vacation condos, and the spouse merely tries—hard but unsuccessfully—to rent them. That might qualify.

Will the President go along with H.R. 1414? In all likelihood, yes. "Total repeal of passive losses for some people is already a done deal," insists one insider. "The question is, how wide will the gates open?"

The real estate lobby overwhelmingly supports this bill, and in this language. If Bush were to oppose it he'd be taking on this enormously powerful lobby, which is well organized and well financed.

Judging by the number of co-sponsors, Congress is willing, too. "With Realtors and property owners in every district, members are more aware of the pain caused by real estate declines than with, say, oil and gas or insurance," says David Berenson, a tax expert at Ernst & Young. Says Jeffrey Deboer of the National Realty Committee, "It's hard to find anyone who doesn't support [H.R. 1414] on Capitol Hill."

According to estimates by the Joint Tax Committee, H.R. 1414 would cost the Treasury an average $1 billion a year through 1997. But promoters of this scheme are said to have some victims picked out to help pay for the measure's revenue loss.

Apparently, they want the loss to be covered in part by limiting the deductibility of interest on new home equity loans; this deduction currently costs the Treasury perhaps $5 billion a year. Further revenue, if needed, could come from stretching out somewhat the depreciable lives for buildings. After all, what good is depreciation if you can't deduct it?

If Ginnie Mae traders and married surgeons can once again take immediate deductions for their passive losses from real estate partnerships, what will happen to the billions of dollars they and others have in "suspended" passive losses from real estate tax shelters from years 1987 through 1991? H.R. 1414 is open on this key question. But whatever happens, it's safe to assume that many a government expert will be busy writing regulations, and many a CPA will be kept prosperous interpreting them. ■

As it has expanded out of asbestos removal, management at the Brand Cos. has found a host of new unpleasant businesses.

Somebody's got to do it

By Christopher Palmeri

SEVEN YEARS ago Matthew Jackson answered an ad for a commercial diving school in Houston. The ad promised travel, high pay and adventure, and it wasn't kidding. Now 32, Jackson makes about $55,000 a year managing a team of divers who specialize in servicing nuclear power plants. Such plants have large stainless steel pools where spent fuel is stored and where reactors are submerged for maintenance. Jackson says he can sometimes glimpse the bluish-black glow of "hot" nuclear fuel. "It's exhilarating," he says.

Jackson's employer is the Brand Cos., of Westchester, Ill., a $408 million (sales) company that specializes in all sorts of nasty jobs most people would just as soon pay somebody else to do. Brand employees erect 300-foot-high scaffolds around refinery towers. They scrape zebra mussels from the water intake pipes of power plants on the Great Lakes. They use plastic explosives to blast slag off the insides of power plants' boilers. And, naturally, they remove asbestos.

Brand was founded in 1961 to install asbestos insulation. When the wave of new power plant construction began in the late 1960s, Brand covered up the pipes and boilers in over 200 plants.

Came then the asbestos scare, and Brand was able to score a second time, as a specialist in asbestos abatement and removal. "We knew what it took to put it in," says Louis Pauly, a former Brand executive who now runs a rival firm. "We knew how to take it out."

For a few years in the 1980s, Brand earned good money removing what it had installed. But then thousands of companies, including big names like Browning-Ferris and Bechtel, got into asbestos abatement. Margins fell. So, eventually, did the volume of work. Result: During the last couple of years, the number of firms in the asbestos abatement business has been cut to approximately two-thirds of its 5,000-firm peak in 1989.

Mark Katzman

Brand's Victor Barnhart and Harold Ingalls

More services to the same customers.

Brand stuck it out. "We're the only really national company left," says Brand's president, Victor Barnhart. But with profits pinched, Brand's founders realized they needed fresh capital to expand into other, more promising lines. So in 1988 they agreed to trade a 49% stake in their company to Chemical Waste Management, a 77%-owned subsidiary of Waste Management Inc.

In exchange for the equity, Brand Cos. received two struggling asbestos abatement firms and $43 million in cash. Chemical Waste has since slightly increased its Brand stake to 54%; that position is now worth $270 million.

Linking itself to a larger partner has worked out nicely for Brand. As Brand Chief Financial Officer Harold Ingalls points out, the company often disposes of its asbestos waste in Waste Management landfills, and it borrows at rates only slightly above Waste Management's commercial paper rate, currently 5%.

Asbestos removal is still profitable, but under Waste Management's control, Brand has reduced its dependence on asbestos removal from 60% of revenues in 1989 to an estimated 40% this year. Rising in importance are scaffolding erection and underwater maintenance services. Brand is now the nation's largest installer of industrial scaffolding, grossing about $140 million last year on this specialty.

Around 46% of Brand Cos.' 23 million shares trade over-the-counter. Recently 22 a share, the stock was trading at about 18 times what Chicago Corp. analyst James McDonald estimates will be its 1992 earnings—$1.20 a share, a 30% increase from 1991. Barnhart, one of about a dozen Brand managers who came from the Waste Management family, says he thinks he can keep the company's sales and earnings growing at 20% a year, in part by making acquisitions.

"The idea," says Barnhart, "is to offer more and more services to the same base of customers: power plants, refineries and chemical plants." Thus, for example, the company has recently acquired businesses in industrial cleaning and demolition.

Right now, Brand employees are dismantling a mile-long former Unocal refinery near Beaumont, Tex., a job where much of the company's profit will come from selling off the used steel and refinery equipment. The project also involves asbestos abatement and the removal of hazardous substances by Chemical Waste. It's not particularly nice work, but somebody's got to do it, and be paid for it.

A hodgepodge of industrial assets acquired during the 1980s, Sal Alfiero's Mark IV Industries is also a miraculous survivor of the junk debt era.

Quick reflexes

By James R. Norman

Joe Traver/Gamma-Liaison

Mark IV founder Salvatore Alfiero **"The biggest thing going for us was that nobody thought we could pull it off."**

As a carrier-based U.S. Marine Corps fighter pilot during the Vietnam War, Salvatore H. Alfiero took plenty of risks in his single-engine jet but came home unscathed. Business life proved every bit as risky as missions over Vietnam.

After picking up a degree from Harvard's business school (class of 1966), Alfiero founded Mark IV Inc., a mobile-home maker. During the mid-1970s Alfiero shuttered the company's mobile-home operations and began buying up manufacturing companies, changing his firm's name to Mark IV Industries.

Fueled with over $800 million in high-yield debt raised through Bear, Stearns & Co., between 1985 and 1991 Alfiero paid a total of $1.25 billion for some 40 companies. For the most part, he kept what he bought and borrowed to buy yet more. In seven years Mark IV's sales ballooned from $37 million to $1.1 billion. Investment banking fees paid: about $50 million.

In 1988 Alfiero consummated his biggest deal when he paid $625 million for former tiremaker Armtek Corp., a company twice Mark IV's size. "The biggest thing going for us," Alfiero recalls, "was that nobody thought we could pull it off."

With Armtek on board, Mark IV's debt topped $1 billion—ten times equity. But like good pilots who instinctively feel the limits of their craft, Alfiero sensed that Mark IV's debt load factor was about to drag it down.

So he began to lighten up, fast. In 1989 he sold Armtek's Copolymer unit to Naamloze Vennootschap DSM. Just a few months after that he negotiated the sale of Armtek's Blackstone radiator unit to Carlo DeBenedetti's Valeo S.A. for $330 million in cash and assumed debt. The timing could not have been better: At about the same time Campeau Corp. defaulted on its bonds, all but wiping out the asset resale market.

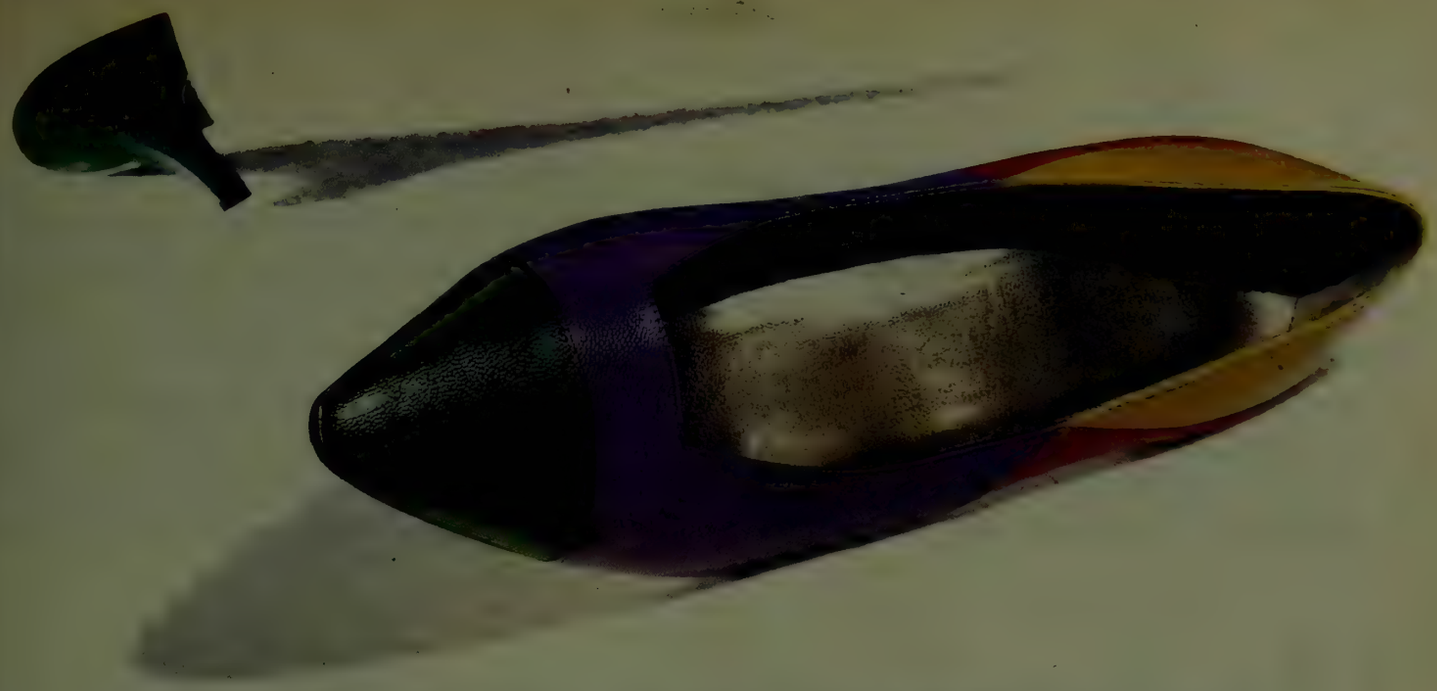
Together, the sales of Copolymer and Blackstone meant that Mark IV had recouped nearly its entire Armtek outlay but still had Armtek's crown jewel, its Dayco rubber hose and belt business. Dayco provided roughly half Armtek's sales and profits. And it fit well in Mark IV's accumulation of small manufacturing firms with secure niches in such varied fields as railcar and bus reading lights, traffic signs and professional audio equipment.

After the Blackstone sale, Alfiero was loaded with cash. By this time junk bonds were going begging—the government had begun forcing the institutions to throw them on the market—so Alfiero began buying in Mark IV's junk bonds at steep discounts. He bought in and retired $250 million of expensive debt in three days.

He kept cutting and refinancing. Last year Mark IV cut 400 of its 11,000 jobs and Alfiero trimmed his own $700,000 pay by 20%. Meanwhile he sold off, at a nice profit, some $30 million of stock he had quietly accumulated in Interlake Corp. and Trinova Corp., companies he had earlier eyed as takeover targets. Last year Alfiero enticed debt holders to convert $57 million in junk bonds to common stock, and raised another $67 million by selling new shares. Last month Mark IV sold another $114 million of convertible debentures to refinance yet more high-cost debt. This has brought debt down to about $530 million and reduced what was once a 92% debt-to-capital ratio to 62%. Alfiero's goal: less than 50% by 1993.

Wall Street has applauded the new look of Mark IV's balance sheet. The company's stock has jumped to above 21 a share from under 10 a year ago; this plus last year's equity issue have tripled the $1 billion (revenues) company's market capitalization to $500 million. Analysts say lower interest, modest growth and more cost cuts could double earnings ($33 million, $1.50 a share, in fiscal 1991) in three years. And Mark IV's earnings multiple, still below the market average, could rise further.

Alfiero, who grew up in a rough section of New Bedford, Mass. and earned an aeronautical engineering degree from Rensselaer Polytechnic Institute, owns 10.7% of the company; the stake is currently worth over $50 million. Now 54, he's proved that the quick reflexes learned in the cockpit can come in handy in the executive suite. ■



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Here and in London, accounting rulemakers want to simplify and unify accounting standards. The immediate result: confusion.

Esperanto for accountants

By Roula Khalaf

FOR NEARLY two decades, many American multinational corporations have urged the creation of financial Esperanto: a single set of accounting rules acceptable to investors and regulators in all of the world's major capital markets. But now that the London-based International Accounting Standards Committee is close to rolling out universal accounting standards, some American companies are getting cold feet. That's because, looking down the road, many U.S. companies fear that standards set in London may one day replace standards currently used in the U.S.

American companies are especially worried about the IASC's proposed rules in these four key areas:

Accounting for mergers and acquisitions. When U.S. companies acquire other companies for stock, they can often account for the acquired assets on a "pooling of interest" basis. In essence, this means the acquiring company can fold the new assets into its balance sheet without marking up (or down) the assets' values—important because it avoids loading the balance sheet with goodwill.

Under the proposed international rules, pooling would be effectively banned. This could make a huge difference to some companies' earnings. Take AT&T's $7.5 billion merger (for AT&T stock) with NCR last year. Using the pooling method, AT&T was able to combine NCR's assets into AT&T at book value. No goodwill was created. But the International Accounting Standards Committee's proposed rules would have forced AT&T to account for the transaction using the "purchase" method of business combinations. The purchase method could have put onto AT&T's books as much as $5.7 billion in goodwill, to be written off against earnings over several years.

John Howard

Is that sound accounting? A growing number of accountants think so. "At some point, the Financial Accounting Standards Board will likely have to take up the issue," says Ernst & Young partner Norman Strauss. International Accounting Standards Committee Chairman Arthur Wyatt defends his preference for purchase over pooling this way: "If you go out and buy a television set for your business, you should record it at what it cost you. But pooling brings old values into the balance sheet."

Amortizing goodwill. Current U.S. accounting rules allow companies to write off goodwill over as long as 40 years. But the proposed international standards would cut that amortization period to a maximum of 20 years, with 5 years proposed for all but unusual situations. If AT&T were forced to write off the NCR goodwill over 5 years, that would knock more than $1 billion a year off earnings. And goodwill charges are not tax deductible in the U.S.

Here, too, many accountants think shorter goodwill amortization periods are a good idea. Says Dennis Beresford, head of FASB: "We might decide to limit goodwill amortization to 20 years, or certainly something less than 40."

There is some good news for U.S. companies here. Currently, regulators in Britain, Germany and Japan allow their companies to write off goodwill immediately against equity, with no charge to earnings. Thus the IASC's goodwill proposals stand to hurt some of these companies more than U.S. companies.

Inventory accounting. U.S. companies typically choose between two inventory accounting methods: LIFO (last in, first out) and FIFO (first in, first out). More U.S. companies choose LIFO, which reduces

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inventory profits and tax bills. But the proposed international rules would forbid LIFO and force companies to use FIFO.

"We were in support of the international effort up until the proposal to eliminate LIFO," says John Wulff, controller at Union Carbide. Wulff says that if Union Carbide had been suddenly forced to switch from LIFO to FIFO in 1990, its reported $632 million pretax income would have jumped by $360 million. That could have increased Carbide's tax bill by as much as $120 million. Wulff's concern: If the IASC bans LIFO, U.S. regulators may one day follow suit.

Research and development. In the U.S., all R&D costs must be expensed against earnings in the year they are incurred. But the proposed international rules would allow some development costs to be capitalized—recorded on the balance sheet as assets—if the company could prove there was a market for the products to which the development spending related, and costs could be recovered. This would be a real boon to the bottom lines of many U.S. drug and technology companies, although it might also give many foreign companies better access to U.S. capital markets.

Supported in theory by the Securities & Exchange Commission and regulators from other developed countries, new international rules should be finalized by the end of 1993. The immediate result will be confusion. U.S. multinationals will continue to use U.S. standards when reporting to American shareholders but could well be forced to use international standards when reporting to Japanese and European shareholders. Meanwhile, foreign companies using U.S. financial markets will be allowed to use the international standards if approved by the SEC. Comparing the financial statements of IBM and Siemens will take more imagination than ever.

Longer term, the U.S. will be under pressure to conform more and more to international standards, no matter how much that might hurt companies' bottom lines. "We're trying to reduce the uncertainties and the barriers that exist across the world's capital markets," says IASC Chairman Wyatt. "If U.S. companies benefit, fine; if they suffer, that's too bad." ■

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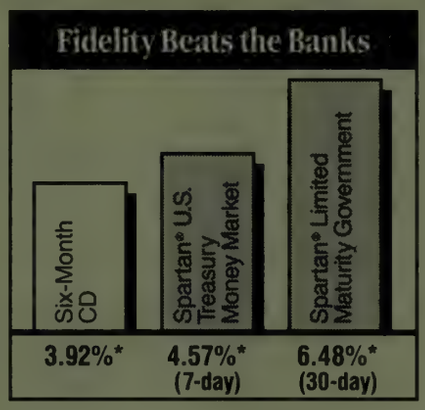

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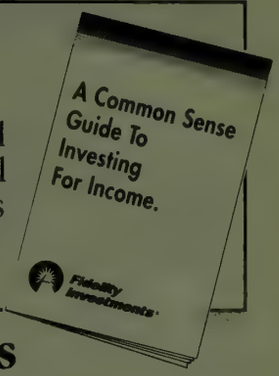

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"Hong Kong has become too civilized," complains the managing director of one of the colony's fastest-growing companies. The same cannot be said of the communist state next door.

Cantonese conquistadores

By Andrew Tanzer

JUDGING BY THE U.S. media's coverage, the mood in Hong Kong is one of gloom and despair, with most of the colony's residents trying to flee before Beijing takes over in 1997. That is the image. Here is the reality:

In 1991 Hong Kong's stock market outperformed every other major market in the world as the Hang Seng Index climbed 42% (measured in U.S. dollars). This year the index continues to test new heights.

Leong Ka Tat/Woodfin Camp

Johnny Lau, founder and chairman of Tomei International (Holdings) Ltd.
Set apart by his Japanese connection and strategy.

Real estate? Almost alone in the world, Hong Kong's property market is overheated. Housing prices shot up 50% last year.

Hong Kong's biggest economic problem, in fact, is inflation, which has been running in the low double digits for three years. Current annual rate: 12%.

This inflation is induced largely by the windfall reaped from the massive migration of industry across the border into China's Guangdong province. The enormous profits earned from employing cheap Chinese workers in hastily put up factories have cascaded into Hong Kong, pushing up wages in the colony's increasingly service-sector-oriented economy. C.H. Kwan, an economist at Nomura Research Institute in Tokyo, likens the impact to the inflation in 16th-century Spain that was touched off by the gold and plunder that followed the conquistadores back from the New World.

To see how Hong Kong entrepreneurs strike gold in Guangdong, consider the case of Johnny Lau, 44, founder and chairman of Tomei International (Holdings) Ltd.

Tomei is one of the world's largest makers of low- and medium-end audio equipment—Walkman-like personal stereo cassette players, portable compact disc players, headphones and the like. About half of Tomei's consumer electronics is supplied to companies such as Aiwa, Panasonic, Philips, Thomson, Radio Shack and Emerson Radio, which put their own brand names on Tomei's goods. The other half is designed by Tomei and sold under private labels like Wal-Mart, Kmart and Sears.

"We're market followers in consumer electronics, not leaders," explains Lau. "We let Sony and Matsushita introduce products first, then we follow in two or three years."

Since 1986 Tomei's sales quadrupled to an estimated $300 million last year; aftertax earnings leaped twenty-fold to an estimated $20 million. Tomei's stock, publicly traded since 1988, has doubled in price since early 1991, valuing Lau's 30% stake at $60 million.

Behind the surge in China's exports to the U.S. the past few years, which has Congress in a rage, is a simple economic fact: Southern China has

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become the world's most competitive producer of everything from toys to low-end garments, basic household appliances and consumer electronics, usurping the former role of Taiwan, South Korea and Hong Kong itself.

Tomei now has 90% of its production in China (the other 10% is in Indonesia), where 20,000 workers, most of them subcontracted, toil in its ten factories. Factory wages, at $60 to $80 a month, are about 10% of Hong Kong levels.

Businesses in Guangdong operate pretty much as they do in the pages of a Microeconomics I textbook. Jack Lau (no relation to Johnny), Tomei's managing director, calls China the most flexible labor market in the world. If business is good, Tomei can easily expand its labor force fourfold in a year from China's bottomless labor pool. If business turns down, Tomei can overnight ax its contracted workers, a variable cost, without making severance payments.

In Hong Kong you pay unemployment, social security, labor insurance, and give maternity leave. In China you pay a dollar for a dollar of labor.

"Hong Kong has become too civilized," says Managing Director Lau. "You have to pay unemployment benefits, make social security and labor insurance payments and give maternity leave. In the PRC [People's Republic of China] you pay a dollar for a dollar of labor; in Hong Kong you pay $1.50."

What sets Johnny Lau apart from other Cantonese conquistadores is his Japanese connection and strategy. After working in a Japanese-owned electronics factory in Singapore, Lau moved to Japan in 1971 to join a Yokohama-based electronic components manufacturer and to study electrical engineering.

In 1974 Lau, then 27, returned to Hong Kong and set up an electronic parts trading company with an investment of $1,000. Lau later moved into parts manufacturing, then assembly of clock radios and cassette recorders, before moving his production to China in 1981.

To ensure product quality, Lau hires Japanese engineers to oversee engineering and quality control in his factories in China. Tomei (taken from the name of the highway connecting Tokyo to Nagoya) currently employs 18 Japanese engineers, mostly lured away from Japanese electronics companies with the bait of faster promotion and stock options.

As befits an admirer of the Japanese *keiretsu* system, Lau works closely with his parts suppliers and with his components customers and consumer electronic distributors. Some of these alliances are cemented by shareholdings. For instance, along with one local partner, Great Wall Electronic, Tomei controls 60% of Hong Kong and China's compact disc player exports. Speaking like a good Japanese businessman, Lau says: "We try to cooperate and avoid competition."

Overseas, Lau invests in electronics wholesalers and brand names to cement distribution. For instance, in October 1990 Tomei took a 5% stake in New Jersey-based Emerson Radio, one of its largest customers. Last year Tomei entered a tie-up with Britain's Amstrad Plc., an electronics firm, to sell Tomei-designed consumer electronics under the Amstrad name in Europe.

A few years down the road Tomei's executives think their biggest market will be China. China currently accounts for 10% of Tomei's sales, the U.S. and Europe for 20% to 25% each. But predicts Jack Lau: "We believe in five years the consumer electronics market in China will be as big as in the U.S."

Perhaps in preparation for that day, Tomei is seeking to invest in some of China's moneylosing state-owned enterprises. The plan is to introduce technology and marketing, and then drag these industrial dinosaurs into the late 20th century by their ears. Lau and other Hong Kong entrepreneurs would in essence like to privatize the enterprises, and then perhaps take them public someday on the recently formed Shanghai or Shenzhen stock exchanges.

Will the hard-liners in the Mao jackets and caps up north in Beijing do business with the conquistadores from Hong Kong? Given the central government's massive budget deficits, they probably won't have much choice. ■

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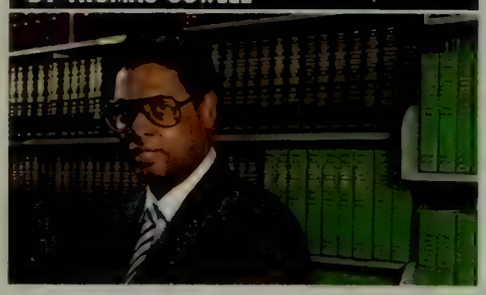
Whether you own property or not, you benefit from protecting property rights, just as you benefit from free speech, whether you exercise that right or not.

The "Takings" issue

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

ONE OF THE REASONS for the food shortages in the former Soviet Union is that so much food spoils between the farm and the supermarket. It spoils because it does not belong to anybody. Those who handle it get paid the same salary, whether the food is carefully stored and preserved or not.

Property rights create vested interests in the preservation and improvement of a nation's resources. No species of animals that are owned are in any danger of extinction. It is unowned animals in the wild that are endangered, just as it is un-owned air and water that are polluted.

People who own no property at all benefit from property rights, because they benefit from living in an economy with a higher standard of living, made possible by having innumerable self-interested guardians of the economy's resources. In this sense, property rights are very similar to free speech rights, which do not exist just for the benefit of that 1% (or less) of the population who are writers or lecturers.

The whole political system would not operate as well if the government could silence its critics. Similarly, the whole economic system would not operate as well if political control of resources replaced individual control. Both free speech rights and property rights belong legally to individuals, but their real function is social, to benefit vast numbers of people who do not themselves exercise these rights.

Russians who go hungry because of inadequate property rights in food production and distribution are not the only people who suffer from a society's neglect of property rights. Cities like New York, where rent control and housing codes can turn apartment buildings from assets into liabilities, have more than their share of homeless people sleeping outdoors in brutal winter weather while many apartment buildings are abandoned and boarded up.

Here, too, the neglect of property rights has a major impact on people who themselves own no property.

The Constitution of the U.S. included property rights and contract rights among the basic rights protected in the first ten amendments. Unfortunately, since the days of the New Deal, courts have tended to treat property rights as expendable.

The Fifth Amendment says that private property may not be taken for public purposes "without just compensation." But that provision of the Constitution has been circumvented in many ways, with many pious phrases about "the public interest," and courts have repeatedly allowed property rights to be violated under broad readings of the "commerce clause" of the Constitution or of the "police powers" of the government.

Now, at last, these trends are being seriously challenged, both intellectually and in the highest court in the land. The intellectual challenge has come from the "law and economics" movement, which began at the University of Chicago, and which is epitomized in Chicago law professor Richard Epstein's book, *Takings*. The legal challenge is now before the U.S. Supreme Court in cases involving people whose property has been devalued by various government regulatory schemes, without the "just compensation" required by the Constitution when property is taken.

When the government confiscates half your property—whether to build a military facility, a park or a highway—it must compensate you. But when it destroys half the value of your property by zoning or environmental restrictions, courts have not required compensation, despite the economic equivalence of the two actions.

Yet government restrictions can take away any portion of the value of property, including more than 100%, when they turn an asset into a liability, as with many apartment buildings in New York City. The combination of costs entailed by housing codes and revenues restricted by rent control laws have turned many buildings into moneylosing properties, which no one would purchase, and whose current owners simply abandon, even at the risk of legal penalties for doing so.

Environmentalists, zoning advocates and others have become alarmed at the prospect that the Supreme Court may begin to take property rights more seriously and require government agencies to compensate owners for destroying the value of their property. This would, of course, cramp the style of those who wish to impose all sorts of social schemes on others.

The merits of those schemes are not at issue. If they are worth the cost, then that cost should be paid. Current practices allow those costs to be hidden, as property rights disappear into thin air with a few magic phrases about "the public interest" or "police powers" or "the commerce clause."

Trading off costs against benefits is what an economy is all about. Property rights force a weighing of such tradeoffs, instead of allowing local and federal agencies to impose high costs on others at no cost to themselves. ■

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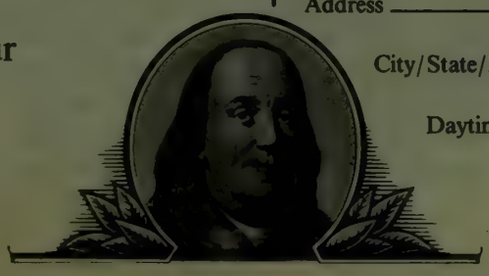

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In an era that has seen the Soviet Union break up and Yugoslavia fragment, no one should be surprised if some Canadians are wondering whether they really need to hang on to Quebec.

Agreeing to disagree?

By Peter Brimelow

CANADIAN DIPLOMATS were among the first in line to recognize the new republic of Ukraine when it became independent last year, no doubt inspired by the strong Ukrainian-Canadian lobby. But Ottawa is oddly reluctant to recognize another nation-state also emerging from a dissolving empire: Canada's own province of Quebec, home to virtually all the country's 6 million French speakers.

A referendum on Quebec's future appears almost certain to be held by October 1992. It is being forced on the province's weather-vane Premier Robert Bourassa by public uproar after the collapse of the latest constitutional reform attempt to appease French nationalist aspirations within a united Canada (FORBES, *June 11, 1990*). Unless Ottawa can come up with a new gimmick to finesse this probably insoluble problem, thus getting Bourassa off the hook, the main argument against an independence vote this fall will be economic. The threat of diminished living standards kept Quebec in Canada when the last such referendum was held on the eve of the 1981-82 recession—although more than half the province's French still voted to leave.

Could Quebec go it alone? One recent analysis from an adjunct scholar at Vancouver's Fraser Institute has been praised by both sides: *The Economic Consequences of Quebec Sovereignty,* by Patrick Grady, a bilingual Ottawa economic consultant and former federal civil servant.

Grady's work brings together both French- and English-language studies—rare in a country where language barriers, despite much pious propaganda, remain virtually absolute. Its conclusions:

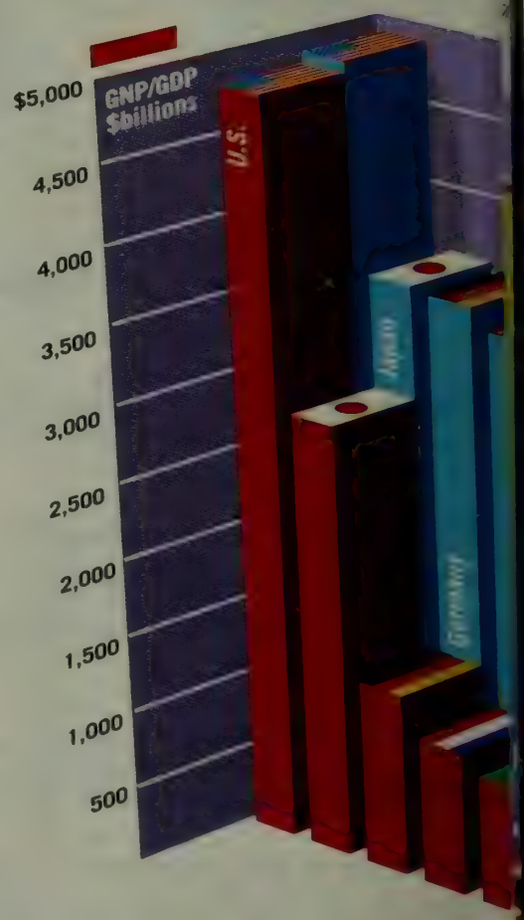
- "The process of separation would be very costly. . . . Real output in Quebec could easily be depressed in the short run by as much as 10% and in the long run by 5%."
- "However . . . it cannot be denied that Quebec would still have a viable economy."

The *verre,* in other words, is either half-full or half-empty, according to taste. And that's how Canadian newspapers interpreted it, with headlines varying from "Separation could cripple economy" to "Quebec could survive on its own." Grady himself, a passionate Canadian federalist despite his American birth, votes for half-empty. But his numbers are neutral. They can be read in other ways.

A major cause of Quebec's post-separation queasiness, according to Grady: the loss of Ottawa-orchestrated transfer payments from the rest of Canada.

In the past, Quebec nationalists and others have argued that Quebec's tax contributions to Ottawa more or less match the benefits it receives in return—particularly since the demise of energy-crisis policies in the early 1980s, which had effectively forced the oil-rich western provinces to subsidize consumers in Ontario and Quebec. But Grady thinks that further adjustments, for such factors as the distribution of public debt charges, suggest Quebec is still a substantial beneficiary. His estimate of the loss to the province: as much as 2% of income, in the short and long run.

Maple leaf ragged?



Quebec and Ontario are still each other's main Canadian trade partner. So any postindependence trade war would be mutually destructive. But a significant portion of Quebec manufacturing is in the "soft" sectors of textiles, clothing and furniture, protected by tariffs and quotas. The rest of Canada would presumably decline

to pay this implicit subsidy to an independent Quebec. Grady's estimate of the resulting readjustment's short-run cost to Quebec: more than 1% of output.

Even more serious: the effect of Canada's chronic current account deficit. Grady thinks that Quebec will have to shift 2% to 3% of its output permanently into exports in order to meet it.

In theory, Quebec could cushion this cost by depreciating its exchange rate. In the past, however, Quebec nationalists have tended to forgo this option by planning to keep the Canadian dollar—part of a scheme for continuing postindependence links with Canada ("sovereignty-association") aimed at satisfying French voters' famous financial prudence. But Grady is skeptical of the prospects for any monetary union. He thinks Quebec will have to maintain its own currency, costing a continuing 1% of output.

An output drop of 10% for Quebec is three or four times the depth of the current Canadian recession. But it is significantly less than the dislocation currently being experienced in Eastern Europe. Arguably, it could be absorbed by Quebec's rather high (3%) long-term growth rate.

Some critics feel Grady's analysis is incomplete. For example, they point out that Quebec's "soft" manufacturing sector is in decline anyway as GATT and the U.S.-Canada Free Trade Agreement take hold. And the province's trade is already reorienting itself from Canada and toward the U.S.

These critics also feel that Grady does not anticipate the dynamic forces that could be released by independence, particularly given Quebec's relatively politicized labor force. "The actual and potential extent of labor-management cooperation is unprecedented in Quebec," says Pierre-Paul Proulx of the Université de Montréal. "Sovereignty would undoubtedly strengthen such synergies."

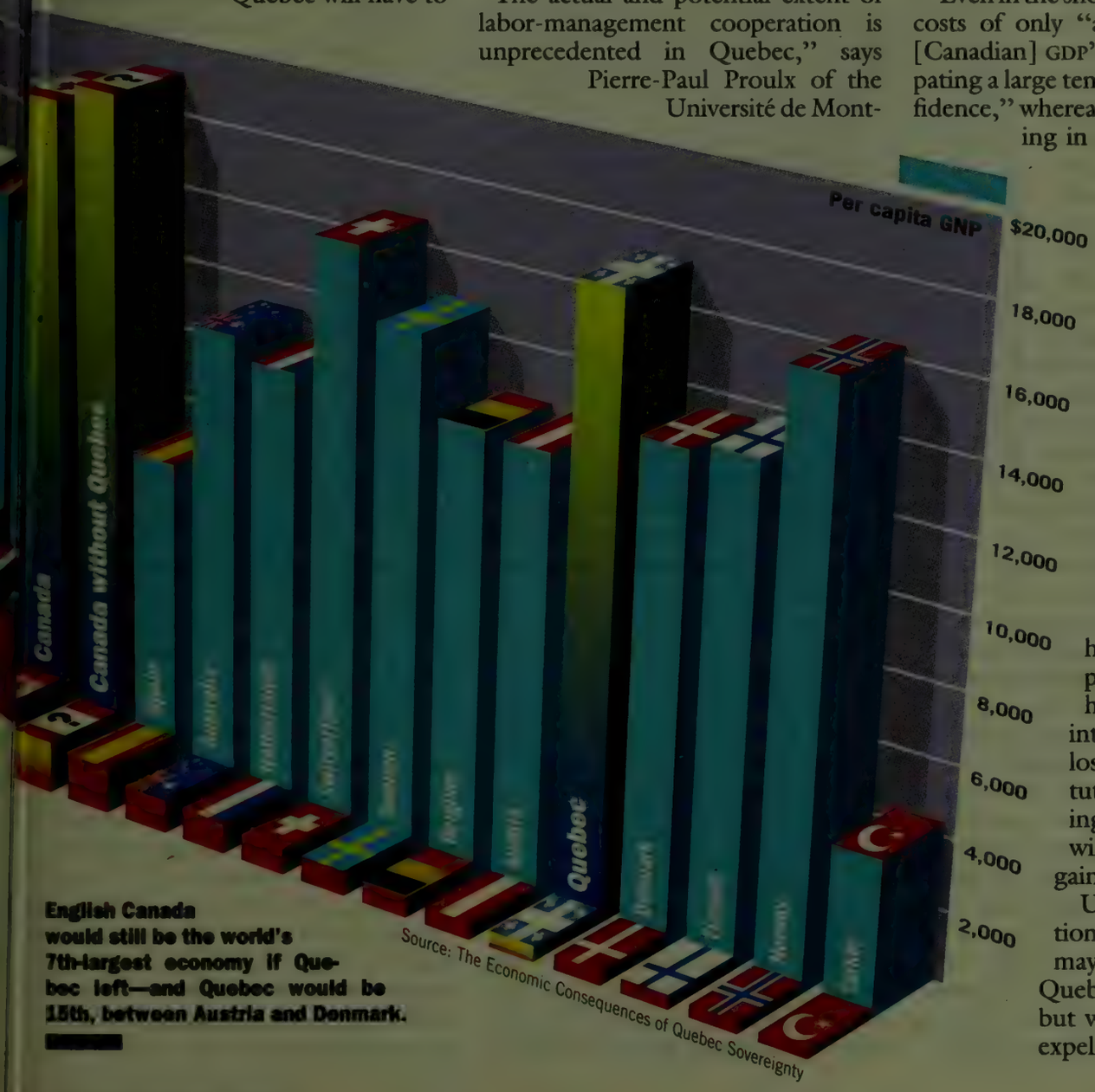
The Fraser Institute is renowned for its defenses of free markets, still unpopular in Canada's intellectual time warp. But Grady, as befits an ex-bureaucrat, is notably respectful of government. Thus he places a (debatable) value on a government-managed currency—and on Ottawa's "clout" in international negotiations, which he fears will be diminished if Quebec leaves. (Actually, Canada's economy will still be seventh-largest in the OECD; *see chart.*) He also expresses poignant concern that "property values in Ottawa can be expected to decline. . . ."

Nevertheless, Grady's numbers contain a striking implicit message: Quebec's independence would not be a problem for the rest of Canada. In fact, it could be a solution.

Even in the short run, Grady counts costs of only "about 1% to 2% of [Canadian] GDP"—and that's anticipating a large temporary "loss of confidence," whereas cynics expect dancing in the snow if Quebec departs. In the long run, the rest of Canada appears to gain a tangible 2% or so of GDP, in part because of Grady's own high estimate of current transfer payments into Quebec. And the benefits are particularly concentrated in Canada's already restless western provinces.

Grady reacts with horror when FORBES points this out. "You have to remember the intangible costs, like loss of clout and institutional restructuring," he says. But there will also be intangible gains.

Ultimately the question for English Canada may be not whether Quebec should secede—but whether it should be expelled. ■



English Canada would still be the world's 7th-largest economy if Quebec left—and Quebec would be 15th, between Austria and Denmark.

The "independent contractor" standoff has turned into a perverse game in which taxpayers are tempted to cheat and the IRS tries to collect twice.

Attention, income hiders

HONEST independent contractors and employers of them, take heart: Congress may well bring relief to many small businesses that employ lots of independent contractors.

Independent contractors aren't hard hats, but workers like truck drivers, ministers, nurses, ballet dancers, maids, computer programmers, real estate agents, consultants and others who work within an organization but more for themselves than for an employer. Such workers are required to pay the full Social Security/Medicare tax on their earnings, up to the maximum of $10,658 a year. But when such a worker is classified as an "employee," he or she owes half the tax and the employer owes the other half.

Whoever pays, the amount of revenue to Uncle Sam is about the same. But the IRS doesn't like independent contractors, and fights to reclassify them as employees on firms' books. Why? Because independents are far likelier to underreport income and evade the taxmen. Figuring it's easier to audit firms' payrolls and 1099 filings than to look through millions of individuals' bank accounts, the IRS tries to get as many workers classified as employees as it can.

A few cases even border on harassment. Currently, for example, the IRS is going after a bunch of mainstream Methodist ministers in Arkansas. These are not your typical tax dodgers, and the cases revolve around a peculiar question of church structure. But even if the IRS were to prevail in court, by no means a given, the net tax change would be minimal—under $300 on average.

In fact, the current system is perverse: it often comes down harder on those who pay taxes than on those who don't. To determine whether a worker is an independent contractor or an employee, employers use a set of 20 questions provided by the IRS. They address such things as the amount and type of control the business has over the worker, and where the work is done.

Chas B. Slackman

But the questions are vague. "Any ten people will apply them 20 different ways," says Alan Stapleton, a General Accounting Office expert. And the penalties for classifying a worker as an independent contractor when he should be classified as an employee are draconian. "Even for small firms, the penalties easily run to six figures and threaten to drive them out of business," says D.J. Gribbin of the National Federation of Independent Business, a small-business group.

Apparently enough taxpayers have complained to their congressmen about IRS harassment on this issue that wheels are beginning to turn. A bill from Representative Ed Jenkins (D–Ga.), for example, would offer an amnesty on past penalties owed by some companies that voluntarily reclassify their employees correctly. And an important study of the issue by the General Accounting Office is due out soon.

Another set of proposals, from Representatives Doug Barnard Jr. (D–Ga.) and Norman Sisisky (D–Va.), may tell the IRS to stop double-collecting Social Security/Medicare taxes. Here's what currently happens: Suppose an independent contractor pays $8,000 in self-employment tax, and then is found to have been an employee. In retrospect, then, he personally should have paid only $4,000, and his employer should have paid $4,000.

But the current law often forces the IRS to keep the $8,000 already collected and then soak the employer for an additional $4,000—plus penalties and interest. The Barnard-Sisisky proposal would put an end to this form of highway robbery.

The proposal would also get to the heart of the income-underreporting problem. The IRS estimates that it loses $20 billion a year in taxes that should have been paid by employers and/or their independent contractors. Most of this is from underreporting by self-employed workers.

Yet the penalty to firms for not filing a 1099 form—which would help the IRS find that income—is only $50, while the penalty for misclassifying a worker is around $3,200. Rather than risk an expensive misclassification audit, some firms just don't file 1099s at all.

To fix this, the Barnard-Sisisky proposal would reduce the penalty for misclassifying a worker to $500 or less, and raise the one for not filing a 1099 to around $3,200, the current level for misclassification.

So the IRS could stop harassing employers and instead go after people who hide income. Independent contractors who underreport income would be worse off, but everybody else would be better off. –L.S.

Former First Chicago Chairman Barry Sullivan took a primarily domestic bank and made it global. Richard Thomas now hopes to reverse that policy.

Back to basics

By Marcia Berss

As Barry Sullivan told it, running a money center bank in the 1980s was sort of like being a college president in the 1960s—lots of hassle, not much fun. That, in fact, is what Sullivan, 61, told colleagues late last year when he abruptly resigned as chief executive of First Chicago Corp. after 11 years on the job. Shortly after he departed, the Midwest's biggest ($49 billion assets) bank reported its fourth straight year of down earnings. Net last year was $116 million, off 53% from 1990.

In addition to Sullivan, four other top executives, including the bank's chief credit officer, have recently left. Jokes one: "The annual report looks like a goodbye card."

Stepping into the void is Richard Thomas, 61, a 34-year First Chicago veteran who has spent the last 17 years as president. Passed over twice before for the chief executive post, Thomas will have his hands full cleaning up his predecessors' messes.

When Sullivan took over in 1980, First Chicago was primarily a wholesale corporate bank lending to mostly midwestern businesses. Sullivan accelerated the bank's overseas exposure, in many cases with sorry results. For example, he bought a Brazilian bank in 1984, only to uncover bad loans forcing a $131 million writeoff the next year. On loans to less developed countries, First Chicago took nearly $1.2 billion in writeoffs between 1988 and 1990.

Thomas promises to significantly prune First Chicago's global corporate banking unit, which accounts for 69% of the bank's assets yet lost $20 million last year after meager 1990 profits. To do so, he must come to grips with First Chicago's sickly real estate portfolio. Some 38% of the bank's Atlanta real estate portfolio is now classified as troubled. In New York the figure is 28%; in Los Angeles, 35%. The latter includes about $140 million in loans to VMS Realty, some made two years ago, even as that developer was crumbling. Last year's credit losses include loans to bankrupt jewelry retailer Zale Corp. and British press baron Robert Maxwell, totaling about $30 million.

Thomas says his strategy will be a back-to-basics focus on commercial loan business within 500 miles of Chicago. But he will face strong competition from very profitable neighboring banks like Ohio's Banc One and Minneapolis' Norwest (Forbes, *Mar. 4, 1991*), which rapidly acquired other Midwest banks while First Chicago's weak stock price kept it out of the bidding. Banc One was one-seventh the size of First Chicago a decade ago but ended 1991 with $46 billion in assets. It will probably pass First Chicago this year to become the region's biggest bank.

Thomas does have some strong assets to work with. First Chicago's crown jewel is its $6.9 billion (assets) credit card unit, the fourth-largest bank credit card in the country. Acquired by Sullivan from Bankers Trust in 1982, the operation probably earns over $100 million aftertax. The operation is probably worth over $1 billion, representing most of the bank's $2 billion current market value.

In his soft voice Thomas concedes that margins in credit cards have been hammered to a pulp by new competitors like American Telephone & Telegraph. But he remains cautiously optimistic. "The cardholder still uses the card for only 20% to 25% of his or her purchases," he notes. "If we can get the cardholder to use the card a higher percent of the time, there's a lot of growth there." Because there are tremendous economies of scale in a credit card operation, volume increases tend to result in fairly large incremental profits.

Another of First Chicago's big hidden assets is its $1 billion leveraged buyout and venture capital portfolio. The bank was an early investor in Kohlberg Kravis Roberts' leveraged buyouts, many of which are now being taken public again *(see story, p. 40)*. Thomas estimates the banks' paper profits on its portfolio at around $500 million, or $7.25 per First Chicago share (recent stock price: 28¾), and says he hopes to take some cash profits this year. "It's nice to have unrealized gains," he says, "but it's not the same as cash." In Dick Thomas, First Chicago has a pragmatist at the helm.

Paul Meredeth

First Chicago's new chief executive, Richard Thomas
After a 17-year wait, he finally got his chance.

Insiders have made out wonderfully from wheeling and dealing in Burlington Industries. Perhaps outsiders should take the hint.

Threadbare?

By Jason Zweig

Chas B. Slackman

NO ONE CAN ever determine when a market has hit its high watermark, but the initial public offering of Burlington Industries is certainly a signal of some kind. In late January the Greensboro, N.C.-based textile producer (1991 sales, $1.9 billion) announced that it plans to go public after being taken private in a 1987 leveraged buyout by Morgan Stanley Group Inc., with Equitable Life and Bankers Trust as partners.

The stock, with Morgan Stanley as lead underwriter, is expected to be offered for between $14 and $16 a share. The offering could raise up to $925 million, which Burlington will mainly spend buying back its nearly $1 billion (face value) in junk bonds. But that will not leave Burlington with a clean balance sheet: The company will simultaneously raise its bank debt from about $800 million to as much as $1.25 billion.

The 1987 buyout valued Burlington Industries at a total of $2.9 billion, including debt. Less than five years later, the 57 million newly issued shares being offered—plus about 11 million existing insiders' shares—come to a maximum of $1.1 billion. Add in the debt, and the company values itself at $2.3 billion.

What accounts for the difference? More than $1 billion in asset sales, and the recession and a textile slump, to be sure. But since 1987 Morgan, Equitable and Bankers Trust have sucked more than $340 million in fees, underwriting discounts, expenses and cash dividends out of Burlington. Morgan got the lion's share: just under $180 million.

Those original investors sold most of their stock to Burlington's employee stock ownership plan in 1989 and 1990 for up to $25.20 a share. The total purchase price, financed by the company: $189 million in cash and preferred shares.

All in all, that's a pretty nice return on an initial equity investment of $125 million.

The financiers were not the only ones who made out. In 1989 and 1990, when Burlington lost a total of $135 million, Chief Executive Frank Greenberg and his top aides raked in $42 million in compensation—of which Greenberg himself got some $14 million. Greenberg and his closest associates also got $10 million of the $175 million cash dividend that Burlington paid its three big outside investors when the ESOP was created in 1989.

To its proponents, a leveraged buyout is supposed to reward those who take risks. But with no initial equity in the buyout, Burlington's managers took no financial risk at all; they bought their stock later, some for as little as $9.60 a share, often with interest-free loans from the company.

A leveraged buyout is also supposed to lead to operating efficiencies, including reduced overhead. Burlington's overhead barely budged, from 7.7% of sales in 1987, the year of the buyout, to 7.3% last year. Operating income, meanwhile, was 6.1% of sales in fiscal 1987, hit 8.6% of sales in fiscal 1989, fell to 6.2% in fiscal 1990, then hit 8.1% in fiscal 1991. In the first quarter of fiscal 1992 operating income was 9.9% of sales, up from 5.7% a year ago.

But Burlington's operating income last year fell $95 million short of covering the interest cost on its $1.8 billion of long-term debt. Earlier in the year the company raised the prospect of defaulting on its bank loans. Fortunately, with the equity market hot, Burlington's bankers put out a prospectus.

Burlington's new equity issue, expected in mid-March, however, may run into market resistance. The company's basic lines of business—making worsted wool, denim and other fabrics, along with drapes, upholstery and carpets—are tied to the overall economy and are subject to tough competition from overseas. At $16 a share, Burlington's new equity, plus its debt, values the company at 13 times operating income.

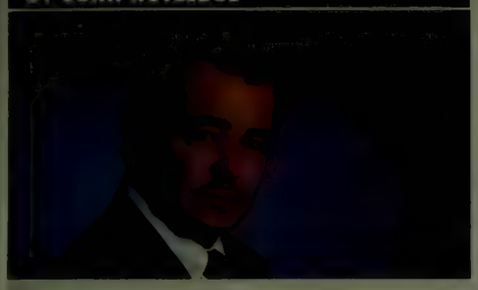
Assuming the issue does sell, management will own just 1.3% of the company.

Note that Burlington's ESOP is not selling any shares. Its stake in the company, which cost $189 million, will be diluted from 49% to 3%. Top initial market value of the new stake: $32 million. Says a former Burlington manager: "They [the ESOP participants] have been told that 3% of something is better than half of nothing." ■

There is only one way to get the economy growing again over the long term—lower the real cost of capital for American companies.

Whiskey or rotgut?

BY JOHN RUTLEDGE



John Rutledge is an economist and chairman of Rutledge & Co., a merchant bank in Claremont, Calif.

THERE'S A SAYING in Texas that summarizes the economic program outlined in President Bush's Jan. 28 State of the Union address: Prohibition is bad, but it's better than no whiskey at all.

There was nothing exciting in the address, but President Bush did correctly identify the two bandits—property deflation and the fibrillating banking system—that have robbed the economy of growth and American workers of their jobs. The measures that lie at the heart of the President's program may not be 12-year-old bourbon, but they are better than no whiskey at all. He proposed reducing the maximum tax rate on capital gains to just over 15%, restoring the deductibility of passive real estate losses, credits for first-time home buyers and looser restrictions on IRA withdrawals.

All these measures should help bolster housing prices. As I wrote in this column last month, RTC property auctions have depressed property values and household net worth by nearly $200 billion over the past two years, frightening people out of buying new cars and furniture, and eroding the collateral that gives bankers the backbone to make business loans. Putting home prices back on an even keel is the single most important issue in breaking the credit crunch and ending the recession. The President's growth program would put a lot of Americans back to work, if he can get it through Congress.

There's the catch. Congressional Democrats are set against the capital gains cut, and have announced plans to either kill it or hold lower capital gains rates hostage to an increase in the top marginal tax rate. Both would be bad news for the economy.

The Democrats would substitute a poisonous brew for the President's weak whiskey. They would prod people into spending more money by creating one more welfare program, a middle-class tax credit of several hundred dollars to families with children, sort of a reverse poll tax. This would complete a cruel joke on the middle class—first rob them of their net worth by deflating home values, then throw them out of work and finally put them on the government dole.

Liquidity-starved Americans, fearing for their jobs and hammered by two years of shrinking net worth, will not use their one-time tax rebates as down payments on new cars. They will instead stuff those rebates into savings accounts to give themselves a little cushion and to repair some of their damaged net worth.

And unless something is done to give the banks reason to believe that real estate is a safe investment again, they in turn would use the new deposits to buy Treasury bills (the same Treasury bills used to finance the tax rebate), just as they have been doing since the credit crunch began. No new lending means no new spending. The economy will stay in the tank.

Ironically, by blocking capital gains tax reduction, the Democrats would be denying middle-class American families—who after all are the owners of our country's $8.3 trillion stock of real estate assets—the biggest tax rebate of all. A lower capital gains rate would increase home values by $300 billion to $500 billion.

For many years, capital gains tax rates have been more important for real estate transactions than for stocks or bonds. The reason for this is simple. Real estate is the largest asset category on America's books and over half our net worth. Lower capital gains rates would mean a lower real cost of capital for American industry, hence more capital to invest, as the President pointed out. But more important, reduced capital gains rates would mean an immediate increase in the aftertax return on real estate investments. This would quickly produce higher prices for both residential and commercial properties, boosting consumers' net worth and improving bank capital positions.

President Bush is trying to sell his capital gains proposal to the American people as a stimulus to the stock market and to growth companies that hope someday to go public. He should be selling the benefits to mom-and-pop homeowners, who will collect most of the gains.

There is only one way to raise investment and get the economy growing again over the long term—lower the real cost of capital for American companies. Every manager knows that in order to maximize the value of his company for shareholders he should undertake all investment projects that have returns higher than the cost of capital.

If we want America's managers to stop selling assets and firing workers and to start investing in growing again, we must give them a lower cost of capital to influence their decisions. The Fed has done its part by lowering interest rates, but the Fed cannot win the fight against recession on its own. It needs help from Congress in the form of lower capital gains rates to help break through the credit crunch, so banks will again make money available for American companies.

Weak as it may be, the President's whiskey is better than the Democrats' rotgut. ■

With new techniques described as "Led Zeppelin meets Roy Rogers," country music is challenging rock as America's popular music of choice. In many ways it is a healthy phenomenon.

The Wal-Mart school of music

By Lisa Gubernick and Peter Newcomb

THE SEATS ARE covered in cowhide, pictures of the Judds and Hank Williams Jr. grace the walls. The patrons, some 500 strong, are mostly outfitted in cowboy hats and Wrangler jeans. On the dance floor, an army of cowboy boots is stomping out a Texas two-step as Garth Brooks' song "Unanswered Prayers" blares from the disc jockey's booth.

A cowboy bar in Dallas? A honky-tonk in Nashville? Nope. It's Denim & Diamonds in trendy Santa Monica, one of the hottest new spots in the Los Angeles area.

Less than a year ago Denim & Diamonds was a disco playing top 40 hits. Rock's out, country's in.

"I used to be into heavy metal, but now all I listen to is country," says 21-year-old Dominica Duran, a receptionist who has been coming to Denim & Diamonds for two months. "Country is better to dance to, and besides, it's more sentimental. It's much easier to listen to."

And not just in Santa Monica. Over the last two years country music has taken over the airwaves and the record charts, as well as the bestseller lists. Michael Ovitz's Creative Artists Agency (CAA), which has hitherto thought it unnecessary to have offices outside Beverly Hills, just opened an outpost in Nashville. In a year when the rock concert business nearly went bust, three of the top ten concert touring acts were country stars. *Memories,* a saccharine autobiography by Ralph Emery, host of *Nashville Now,* a top-rated cable television show on The Nashville Network (TNN), rose to number two on the *New York Times* bestseller list.

Wynonna and Naomi Judd's recent pay-per-view special drew more viewers than did specials for the Rolling Stones and New Kids on the Block. In one week in January, among the top 100 albums, country accounted for nearly 20% of all units sold. Revenues from the country music business are now over $3 billion and climbing. Marketing consultant Macey Lipman thinks record sales alone could double in the next two years.

In 1985 there were only 16 country albums that went gold, that is, sold over 500,000 units. Last year 33 went gold, and another 35 went platinum (sold over 1 million copies).

Right in the eye of this popular storm is an unprepossessing-looking 30-year-old Oklahoman named Garth Brooks. Brooks has been described as having a face like "a thumb with a hat on it," but glamour isn't what country music is all about. What's changed is this: Brooks is younger than the aging country stars of yore, and he's learned a lot from the successful rock acts.

Brooks' agent, Tony Conway, explains: "Garth's act incorporated what he had seen growing up. He used to see Queen and figured there was no reason he couldn't do those kinds of theatrics in country." Instead of standing ramrod straight, clutching guitar to chest, Brooks cruises through the audience and swings from electrical cables. In his finale, he has been known to smash his guitar. "Garth is like Led Zeppelin meets Roy Rogers," says James Bowen, whose Liberty Records, a subsidiary of Capitol-EMI, distributes Brooks.

The Saturday night crowd at Denim & Diamonds **The Texas two-step comes to Santa Monica.**

Alon Reininger/Contact

The odd combination works. Brooks' recent NBC special helped push the network to its highest Friday night ratings in over two years. His record sales now total over 16 million; his last album, *Ropin' the Wind,* has knocked such heavyweights as Michael Jackson and Guns N' Roses from the top of the charts. One week in January Brooks' records sold nearly

340,000 units, putting $500,000 in his wallet.

Why is country so hot? Harold Zullow, a professor at Columbia University's School of Public Health who specializes in consumer attitudes, credits the recession. "Country music focuses on the pathos in life, and so it makes sense that in times where people are focused on problems, country music will have a greater appeal."

But the roots go deeper than the recession. This phenomenon suggests that American popular culture is taking a new, healthier direction. At Denim & Diamonds, the clientele is of mixed ages, with a preponderance of the young, but ranging from 21 to 60 and up. The scene is less solipsistic and drug oriented. Dancing becomes a social activity again, with people dancing with each other rather than wrapped in their own private ecstasy. The sexual electricity is there, but it isn't vulgar or violent.

So, too, with lyrics, which become as important as the music. As Brooks puts it, "We treat the lyrics like the woman any man wants to impress the most. We give the lyrics all the attention we can. I'm not sure other formats are remembering that the lyrics are what it's all about."

One thing country music is all about is everyday life and everyday experience. Rapper Ice Cube writes about burning down Korean grocery stores. The Geto Boys talk about a horrifically violent rape. "If you don't live in the inner city, you can't relate to those lyrics," says Liberty's Bowen. "There are millions of other younger Americans who are disenfranchised. They don't like dancing to heavy metal music. They've been poking around and they found Garth Brooks."

What they found in him is an entertainer they can relate to. Brooks' "Unanswered Prayers" tells the story of what happens when, with his wife, Brooks runs into his high school girlfriend and how grateful he is that his hopes to have her forever were never

realized. "Friends in Low Places," a sing-along narrated by a guy who gets dumped for a classier rival, has become a teenage anthem.

Country music has probably always been more popular than the industry gave it credit for. The music business bible, *Billboard,* no longer relies on estimates from record store owners in tabulating album sales. The magazine now uses computerized tracking methods that include purchases at stores like Wal-Mart and Kmart, places where the country customer is much more likely to buy his music. "It is like someone opened the closet door," says Brooks. "Just because the light is on, does it mean it wasn't that way all along?"

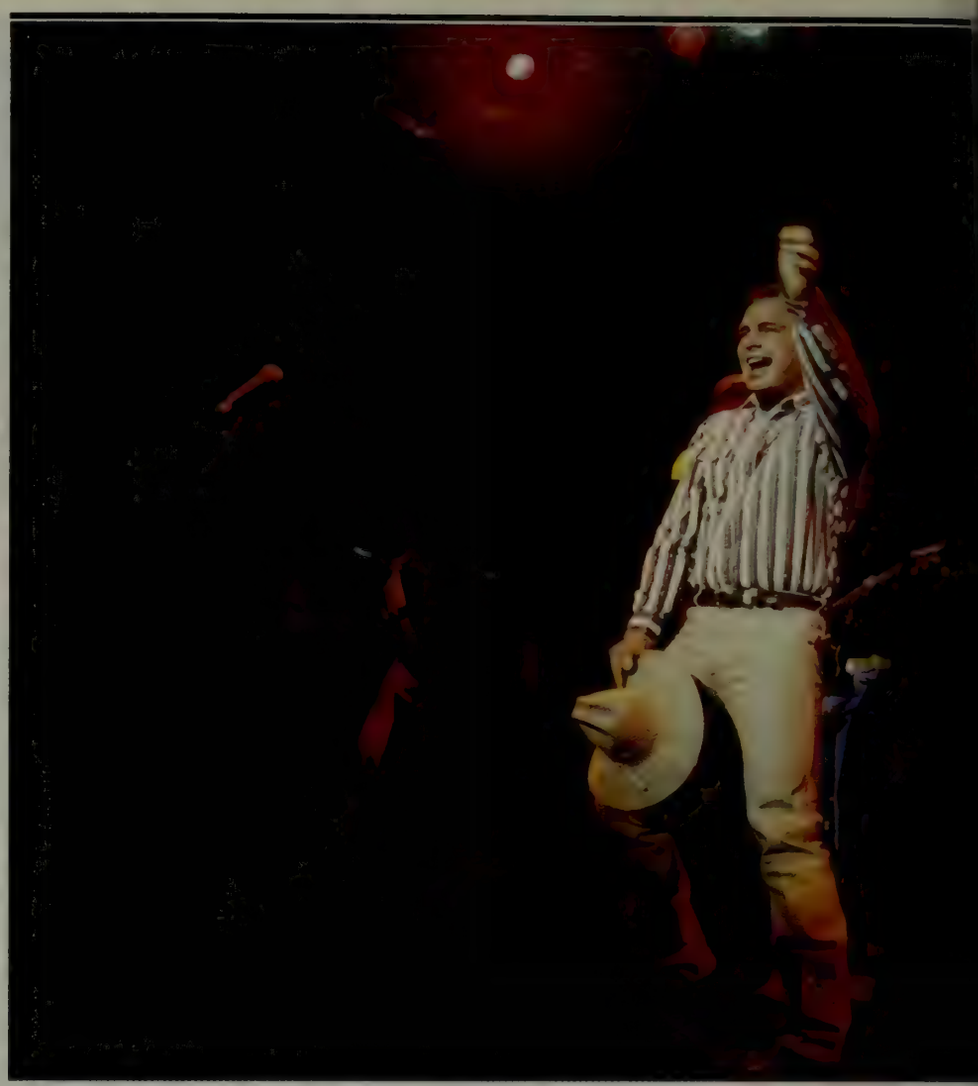
There's no doubt that the light is shining brighter these days. Ten years ago there were 1,800 country radio stations. Now there are more than 2,500. And the listeners aren't just people driving beat-up pickup trucks and swilling from six-packs. According to a study by Simmons Research, more people with household incomes of $40,000 or above listen to country music radio than any other format.

This isn't the first time country has boomed. The first wave came back in the late 1960s, when Johnny Cash had an hourlong variety show on ABC. In 1980 *Urban Cowboy*, starring John Travolta, had every citified man shoehorning his feet into cowboy boots. But by 1983 record sales had started slipping and radio stations that were playing nothing but country had starting putting pop tunes back on the turntable. In 1985 the *New York Times* declared the Nashville sound virtually dead.

This time will the trend endure? Steve Gibson, chairman of a Nashville Chamber of Commerce music/entertainment task force and a Nashville studio musician, says yes. "The success after *Urban Cowboy* was driven by the motion picture, fashion, lifestyle options and the presence of mechanical bulls in great big clubs in Texas," says Gibson. "It was not driven by the music. It was driven by external sources." Now the popularity of country music is about substance, not merely style.

The beginning of this boom dates to 1986, when Randy Travis, a good-looking 22-year-old singer, was signed to Warner Bros.' Nashville label. Unlike the older generation of country stars, who were graying at the temples and widening at the waist, Travis had a full head of hair and looked good in a tight pair of blue jeans. He was the first of the new pinup country stars, what Nashville now calls hat acts.

Country, which previously had attracted mostly an older audience, started pulling in college students. *Hee Haw*, the veteran country variety show that is now in its twenty-fourth season, recently unveiled a new look, axing ten of its older performers and adding a bevy of younger, voluptuous female stars. Guest stars now include younger members of the country set, such as Lorrie Morgan and Brooks,



William Campbell/Sygma

Wynonna and Naomi Judd **Their pay-per-view draw was bigger than the Rolling Stones'.**

Henry Ditz/Onyx

Country star Garth Brooks **"We treat the lyrics like the woman any man wants to impress."**

Dan Borris/Outline

Reba McEntire and Randy Travis **Country's new pinup stars.**

Dilip Mehta/Contact

who sacrificed a day of planned vacation to do the show.

Julie Baker, a 20-year-old Pennsylvania State University junior, used to listen only to rock. "I've gotten totally hooked on country," she says. The Julie Bakers are precisely what is driving this boom. Al Teller heads the MCA music entertainment group, where country singer Reba McEntire now sells more albums than any other performer on the MCA roster. Says Teller: "The driving demographics for the record industry are 15-to-25-year-olds—they are the ones who buy records, and they never used to listen to country before."

Like MTV and rock in the early 1980s, country music has benefited from cable television. Country music has finally discovered the art of the video—about six years after its rock 'n' roll brethren. Last year Country Music Television: CMT was purchased by a combination of Gaylord Entertainment and Group W Satellite Communications and recast to a younger market *(see box, p. 76)*. The results have been spectacular both for the owners and for the performers. Advertising revenues are up over 70% from last year. The performers? "It used to take two to three years to establish an act," says agent Tony Conway. "Now it takes six months." The reason, he says, is that the videos on TNN and Country Music Television can create that all-important visual image that's the foundation for success.

Music is made differently in Nashville than it is in New York or Los Angeles. All the performers are present at recording sessions, rather than being dubbed in one player at a time, saving on studio costs. Moreover, there's a certain hands-on professionalism that exists in Nashville; many of the executives running record labels there are onetime musicians; they are intimately involved with each step of the process and are keenly aware of whether schedules are running on time and on budget. "I think some hard looks could be taken at how we do business here by Los Angles and New York," says Liberty's Bowen.

Marketing costs run less in Nashville as well. As Jim Ed Norman, head of Warner/Reprise Records in Nashville, says, "We react to market demand, we don't try to impose it."

Country music has a marketing advantage rock can rarely match: The performers mingle with their fans rather than remaining haughty and aloof from them. Country music stars aren't buffered by battalions of muscle-bound security guards and pompadoured publicists.

Each June some 25,000 country music fans come to Nashville to celebrate the International Country Music Fan Fair, a seven-day fete at the Tennessee State Fairgrounds. Most acts there have their own booths, selling T shirts and signing autographs. Stars like Reba McEntire host breakfasts for their fan clubs. "Country acts treat their fans better," says Tom Ross, who heads CAA's music division. "Can you imagine Guns N' Roses and AC/DC in booths on a fairground?"

About 200 miles south of Kansas City lies the unlikely new mecca for country music performers: Branson, Mo. Stars such as Loretta Lynn, Reba McEntire and Conway Twitty perform each summer night at the 25 theaters in the tiny town (pop. 3,706). The 4 million tourists who pass through spend an estimated $750 million annually. Unlike Las Vegas, where the audience sees the stars only onstage, country acts in Branson spend hours signing autographs and posing for photos. That accessibility creates loyalty. Experts estimate that a rock act lasts about three years; the life span of a country star is five times that long.

These are times when American popular culture is conquering the world. Europe has never been a big market for country music, but that, too, could change. "It's still a cowboy-and-Indian thing there," says Ron Baird, who is based in CAA's new Nashville office. "A lot of the fans wear six-guns and chaps to concerts. The Swiss shoot off blanks if they really like the show."

Music producer Quincy Jones is planning to have a country music

night at this year's Montreux Jazz and World Music Festival in Switzerland. Several shows from TNN are airing on London Weekend Television, and this April the Highwaymen, a group made up of Waylon Jennings, Willie Nelson, Kris Kristofferson and Johnny Cash, will be playing some of Europe's biggest venues, including London's Wembley Arena. In Tokyo, Japan's first full-time country music radio station, KTYO, began airing in January. At Warner/Reprise in Nashville, which hired its first international sales representative last year, foreign record sales for 1991 were up 30% over 1990. It looks to be only getting bigger. Garth Brooks is planning his first European tour for next year.

Brooks represents the new breed of country music entertainer. He was a marketing and advertising major in college, and the training shows—and it's not just in his stage antics. Apparently stealing a page from Madonna's book of controversy, he conceptualized and starred in a music video, "The Thunder Rolls," based on his own song about a two-timing wife-beater. In the video the abused wife metes out her own justice, shooting her husband. The video was banned from country music cable networks and created a flurry of publicity.

Brooks' ticket prices last year were $15, about half what the Rolling Stones charged on their last tour. "The less people pay at the gate, the more they'll spend inside," says Brooks. "That's just simple logic." And the more T shirts sold, the more ends up in Brooks' own pocket. He sells an average of $8.50 in merchandise per concertgoer—comparable to most rock acts and tops for a country music act.

"I believe in the Wal-Mart school of business," says Brooks. "The less people pay for a product that they are happy with, the happier they are with it." He pays attention to quality as well. "Our T shirts are all 100% cotton, about the heaviest weight you can buy. That shirt is an advertisement on someone's back. So we want to give people something that's going to last."

Good quality at a reasonable price. What more can you ask from the entertainment industry—or any other business?

Cashing in

HOW HOT is country? Hot enough to propel the price of Gaylord Entertainment Co. from $20.50 a share at the time of its initial public offering last October to a recent $31.

The appreciation is largely attributable to the sizzle of Gaylord's Nashville Network, the ad-supported cable TV service that offers country music and "lifestyle" programming (auto races, talk and game shows). TNN seemed little more than a throw-in when Oklahoma media baron and billionaire Edward L. Gaylord bought the network's parent company, Opryland USA, in 1983 for a reported $270 million.

Superstock

Edward L. Gaylord, of Gaylord Entertainment Co., acquired Opryland USA in 1983

Under Gaylord, the Nashville-based company expanded its theme park, convention hotel and cable TV programming.

At the time TNN had been on the air for a scant four months. The company's crown jewels were the Grand Ole Opry, a convention hotel, a theme park and a Nashville AM/FM radio station. But with the phenomenal popularity of country music, TNN now generates more operating income for Gaylord than the hotel and theme park combined.

Not that the hotel is faltering. Occupancy averaged 86% last year, far above the national average of about 62%. Theme park attendance dropped 9%, however, because of the recession, the Persian Gulf conflict and a rainy spring. But Gaylord, 72, likes the park business so much that he bought a 14% stake in Fiesta Texas, a theme park opening this month in San Antonio that will also offer musical shows and rides.

The shining star in Gaylord's $600 million (sales) company, TNN ranks fifth in prime-time ratings among cable networks. Early in 1991 Gaylord bought 67% of Country Music Television, a competing cable service, for $24 million. CMT reaches just 28% of the nation's cable households but has a very loyal viewership. The average CMT viewer watches twice as much each week as do viewers of VH-1, the soft-rock music channel.

Last year Gaylord decided to combine the Opryland businesses with his 4 independent TV stations and 26 cable franchises and take the whole shebang public. Gaylord raised nearly $200 million by selling 24% of the company. The proceeds were used to pay down debt to $361 million at year's end. Gaylord's family and some close associates retained a 46% stake of the company; the stake is now worth around $540 million. And the country craze is still spreading.

–KATHRYN HARRIS

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Charles F. Kettering

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And it is one reason we will never cease to believe in a better tomorrow.

Photograph by Bruce Davidson

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In Touch with Tomorrow

TOSHIBA

The old one-armed bandit has entered the electronic age—and revenue-hungry politicians are delighted.

Legalizing the slots

By James Cook

A VIDEO LOTTERY TERMINAL is a slot machine that lays out video poker hands, bingo cards or what have you for low-stakes gambling. It's called adult amusement. It's the old one-armed bandit updated.

Except for their payment devices, these terminals are identical to the video poker machines played legally in Las Vegas and Atlantic City and illegally in tens of thousands of bars, restaurants and clubs all over the U.S. With VLTs you generally don't feed quarters into a slot, you feed bills, to establish your credit—$1, $5, $20. Your losses and winnings are electronically tallied as you play, then totaled and printed out on a slip redeemable for cash (if you come out ahead).

It's a product whose time has come. The lottomania (FORBES, *Mar. 6, 1989*) that sent state lottery revenues to more than $20 billion last year has finally run out of steam. Revenue gains are slackening off, and in a third of the states playing the game, revenues are down. The video lottery shapes up as a quick, easy and no longer especially controversial means of tapping a new source of revenue for voracious state budgets.

State lotteries have gone a long way toward making gambling respectable. They have turned gambling into a source of money for such estimable causes as education, the environment and economic development. The video lottery promises to do for the slot machine what lotteries did for the numbers game: channel people's gambling instincts into socially useful causes. Larry Lippon, boss of Video Lottery Technologies, which designed South Dakota's prototypical video lottery system, says, "Our whole vision was to create a stream of public revenues for funding favorite issues."

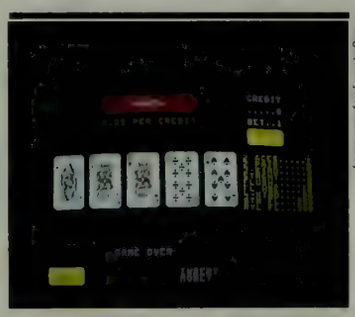
The stream is finally beginning to flow. Montana began playing the video lottery in 1985, South Dakota in 1989, Canada's Maritime Provinces in 1990, Manitoba and three Colorado mining towns last year. West Virginia and Alberta have trial programs under way, Oregon and Louisiana will get their games into operation this year, and legislation is under consideration in Kansas, Missouri, Minnesota, South Carolina, Wisconsin, New Mexico, New York and New Jersey.

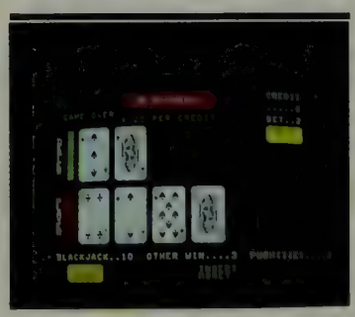
Players can sit for hours before the machines, playing with interactive touch-screen controls, turning hard-earned cash into instant adrenaline. The video lottery offers instant gratification—no waiting to learn whether you won or lost.

Last year the VLTs yielded Montana $21 million in tax revenue, South Dakota $25 million—five to ten times what their conventional lotteries do. And these are thinly populated, low-income states. Imagine what such lotteries could yield in New York, Illinois or California.

So the potential is enormous. There may be 190,000 casino machines in place, as against fewer than 30,000 VLTs, but the balance is likely to shift. John J. Russell is president of Reno's International Game Technology, the U.S.'-largest videogaming machine manufacturer. Russell says that lottery demand could easily run between 300,000 and 600,000 machines over the next three or four years, and that doesn't include 150,000 machines for the traditional casino market. With VLTs currently selling for maybe $5,000 apiece, that shapes up as a $1.5 billion market, enough to get anyone's competitive juices flowing.

International Game Technology



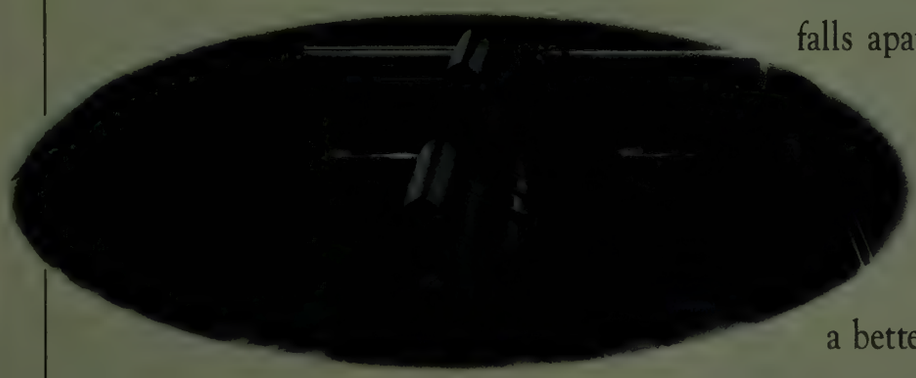


Photographs by Layne Kennedy

The games people will play
Video lottery terminals like these at a bar in Sioux Falls, S.D. promise to do for slot machines what lotteries did for the numbers game.

If it had less legroom, a lesser warranty, and cost thousands more, it could be a Cadillac.

Logic would seem to dictate that when you pay thousands of dollars more for a car, you should get a lot more car. Apparently, in the case of the Cadillac Sedan DeVille versus the Chrysler Fifth Avenue, logic does not apply. Both cars provide ample room for six, air-conditioning, automatic transmission, automatic load leveling, stereo sound system, fully reclining seats, all as standard equipment. Both offer safety and performance. A driver's air bag is standard on the Chrysler Fifth Avenue, as is a powerful fuel-injected, 3.3-liter V-6. Anti-lock brakes are also available. Here, however, is where logic totally falls apart. The restyled Chrysler Fifth Avenue costs thousands less, yet it has more rear legroom than the largest Cadillac*. And it offers a better warranty: bumper-to-bumper protection for 5 years or 50,000 miles† So if you're looking for a great luxury car, defy logic. Pay less, get more. Chrysler Fifth Avenue. For more information, call 1-800-4A-CHRYSLER.



ADVANTAGE: CHRYSLER

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*Standard equipment levels vary. Legroom comparison to Cadillac Brougham. †Excludes normal maintenance, adjustments and wear items. See limited warranty at dealer. Some restrictions apply.

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Obtain the Property Report required by Federal law and read it before signing anything. No Federal agency has judged the merits or value, if any, of this property. Equal Credit and Housing Opportunity. A statement and offering statement has been filed with the Secretary of State of the State of New York. The filing does not constitute approval of the sale or lease or offer for sale or lease by the Secretary of State or that the Secretary of State has in any way passed upon the merits of such offering . A copy of the offering statement is available, upon request, from Sangre de Cristo Ranches. NYA86-153. A statement of Record filed with the New Jersey Real Estate Commission permits this property to be offered to New Jersey residents, but does not pass upon its merits or value. Obtain the New Jersey Public Offering Statement and read it before signing anything. NJA #60686004 CO, Florida AD 20537

The VLT game

Company	1991 revenues ($mil)	% change 87-91	1991 net income ($mil)	% change 87-91	Price range high	Price range low	Recent price	Market cap ($mil)
Bally Gaming Intl*	$155	32%	$5	33%	20	11¼	18½	$193
Intl Game Tech	237	186	30	—†	59½	10	56¼	1,665
Video Lottery Tech	31	297	4	7810	31½	16½	24	265
WMS Industries	161	31	11	1700	20⅞	2½	20⅛	456

* Revenue and earnings figures are estimates. †1987 had net loss.

One more sign of an overheated stock market: No matter that Bally's market share had collapsed, that Video Lottery Technologies' earnings per share had leveled off, or that WMS had yet to sell a single machine. Their new shares were gobbled up last fall. Of the public companies here, only Video Lottery Technologies and IGT have established major positions in the VLT market, but the others are coming.

pioneered the videogaming machines that started it all in the early Eighties. But the competition is coming on fast, especially from Lippon's Video Lottery Technologies and from privately owned Gtech (FORBES, *Jan. 23, 1989*), which produces on-line computer systems for two dozen state lotteries.

Bringing up the rear are a dozen or so other companies, including Bally Gaming International, which manages West Virginia's pilot VLT project, and WMS Industries, the world's largest maker of pinball machines, which introduced its first VLT at a trade show last September. At least one major defense contractor has thought about getting into the business. And there are others waiting to take the plunge. Last fall a passel of gaming outfits—Video Lottery Technologies, Bally Gaming and WMS Industries—were able to peddle nearly $150 million in new stock to the public at multiples that made them look like biotech outfits *(see table)*.

Actually, videogaming was well under way before state governments recognized it as a potent source of revenue. According to Montgomery Securities' William S. Fellows, the manufacturers have already put at least 150,000 untaxed, unregulated and illegal machines into operation in North America.

Don't count on the legal VLTs' putting the illegal market out of business. An illegal machine in a densely populated state like New Jersey can yield $4,000 or more a week, and an operator can recover his $5,000 investment in the machine in two or three weeks, faster than law enforcement is able to shut him down. Despite the legalization of lotteries and off-track betting, numbers rackets and horse rooms still flourish. But at least legalization shifts some of the burden of government from the taxpayer to the gambler—and while lots of people love to gamble, almost nobody loves paying taxes.

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Meet Juiceman Jay Kordich, electronic medicine show huckster, infomercial star and a key player in a rapidly growing little direct sales outfit.

The power of juicing

By Gary Slutsker

FOR OVER 40 years, Jay Kordich earned his living as a traveling salesman of juice-extracting machines. Dressed in a navy blue sweatsuit, his bushy silver eyebrows darting up and down, Kordich styled himself the Juiceman and mesmerized county fair crowds with his tale of how, as a young man, he had been drafted by the Green Bay Packers—and then found he had bladder cancer. But Kordich went on a steady regimen of carrot-apple juice (with calves' liver juice occasionally mixed in). His cancer, he avers, has been in remission ever since.

After such a pitch, it wasn't hard for Kordich to sell his carny audiences juice-making machines from the camper on the back of a pickup truck that served as the Juiceman's office, warehouse and home when he was on the road. Which was most of the time.

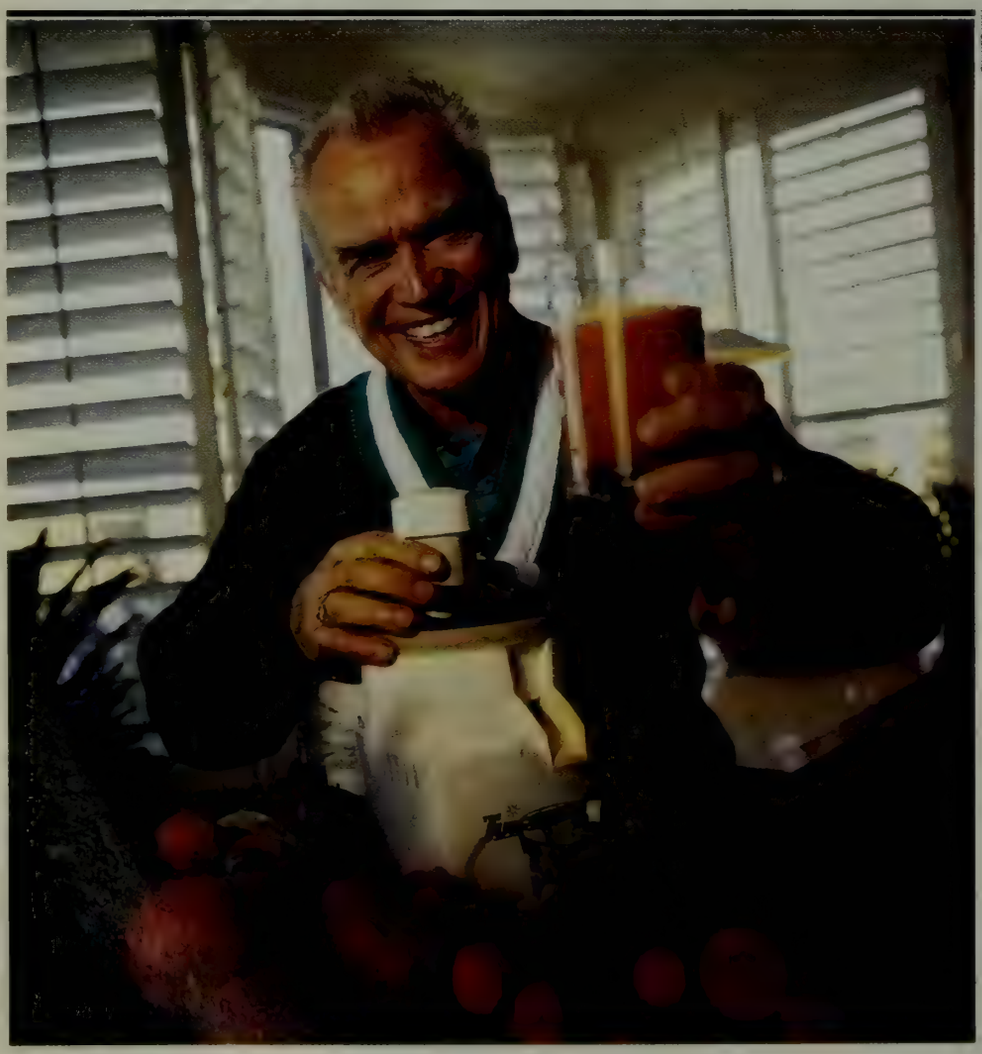
In the last few years Kordich, now 69, has moved up several notches on the income scale. Gone is the camper. He just bought a Mercedes 500 SEL for his wife, Linda, 36. These days Kordich spends most of his time at home in Las Vegas. His annual income, he acknowledges, is well into six figures.

What's behind the Juiceman's newfound wealth? Three years ago Kordich hooked up with Richard Cesari. Cesari, now 34, had previously cofounded a company that sold $20 million worth of a Slim-Fast-like diet product called New Day on late-night television. The venture collapsed after just 18 months.

Looking around for a new product to promote, Cesari decided to capitalize on the country's health craze and settled on juicers. The Juiceman, whom he'd met at a trade show, seemed a natural hook. Cesari signed him up to promote Juiceman products in return for a percentage of sales.

Cesari started small, booking Kordich on local talk shows and sponsoring free nutrition seminars where the Juiceman pitched his juicers. Then, last year, Cesari laid out around $200,000 to produce and test a 30-minute infomercial—advertiser-sponsored programming—of the Juiceman evangelizing on the nutritional benefits of juicing and luring viewers to his live local seminars. The Juiceman's infomercials also sell juicers and other products—videotapes, cookbooks and the like—via an 800 number. Cost to air a 30-minute spot: from about $500 for late-night cable TV to $80,000 for prime-time broadcasts in Los Angeles. Today, with the help of media buyers, Cesari spends upwards of $1.5 million a month promoting the Juiceman on TV.

The infomercials catapulted the Juiceman to modest fame and Cesari to fortune. In 1990, its first full year of operations, Cesari's company, now known as Trillium Health Products Inc., grossed $6.6 million. Last year, its first using the infomercials, Trillium's revenues hit $30 million. Prof-



Ann Summa

Jay Kordich, the Juiceman

A lucrative journey from country fairs to late-night television.

its? Seattle-based Trillium is privately owned by Cesari and two partners. He won't say what it earns.

Kordich's cut of Trillium's sales has already made him a millionaire, and his infomercials have won him the kind of celebrity that rates him casual mention by comedian Jay Leno on the *Tonight Show*. In April William Morrow will publish *The Juiceman's Power of Juicing*. Kordich's editor says prepublication orders for the book have almost outstripped its first printing of 200,000 copies.

With more Americans getting older and worrying about nutrition, just under 1 million juice extractors were sold in the U.S. last year, up from a couple hundred thousand just two years ago. But Trillium accounts for a relatively small piece of that action. That's because many late-night television viewers get turned on by the Juiceman but buy Moulinex, Braun or Krups juicers from the local discount appliance center, at roughly a third the $289 that Trillium charges. Juice extractors work by pulverizing fruit or vegetables and spinning the mash against a cone-shaped filter.

"The Juiceman is selling his machine, but he's also selling everybody else's," gloats John Blackwell, head of marketing at Moulinex. "Juicers have been around forever, but they were never exciting until the Juiceman."

Cesari is fighting back. Last year he set up a joint venture deal with a Korean motor manufacturer to custom-produce a new machine with a quieter, extra-heavy-duty motor. The appliance will be brand-named Juiceman Jr. and sold in department and gourmet stores for around $150. (Before, the only retailers to carry Cesari's imported juicers were health food stores.) "We tell people to juice pineapples or watermelons with the skin on, because a lot of nutrients are in the skin," says Cesari. "With other machines, that could stop the motor."

Cesari plans to extend Trillium's product line, too. He'll soon start producing infomercials to push diet drinks (again) and rice cookers. Are there a Diet Man and a Rice Man in Trillium's future? Yes, but they won't be Jay Kordich. He's sticking to what he knows best. "I'm a raw-foodist," he says. "I take everything in my body basically alive." ■

For some folks environmentalism is a noble cause. For Anita Roddick it is a fantastic money spinner.

Changing the world

By Jean Sherman Chatzky

Christopher Pillitz/Network-Matrix

Body Shop founder Anita Roddick
Is the U.S. market passing her by?

ADVENTUROUS AND well traveled, Anita Roddick was running a restaurant and eight-room hotel in her hometown, the English Channel resort of Littlehampton. It was 1976 and she was looking for something more exciting.

An idea struck her. An enterprising former flower child, Roddick, then 33, decided to produce and sell skin creams, shampoos and other lotions made from fruit and vegetable oils rather than from animal fats. She would capitalize on the "natural" angle, marketing to counterculture types like herself.

Roddick used the hotel as collateral for a $7,000 loan. With the money she hired a local chemist to concoct animal-fat-free lotions and began selling them from a little shop located in Brighton, about ten minutes from Littlehampton.

Thus was born the Body Shop Plc., today one of the world's most successful young companies. There are now 700 Body Shop stores, most of them franchised, around the world. Body Shop earned $41 million on sales of $231 million in the 12 months ended last Aug. 31.

Roddick started a trend. According to Allan Mottus, a cosmetics industry consultant, so-called natural cosmetics now account for around 4% of the $16 billion U.S. cosmetics market, and the category is growing at 12% to 15% annually, about three times as fast as the industry as a whole.

But notice something odd. Of the Body Shop's 700 stores, only 78 are in the U.S. market, which accounts

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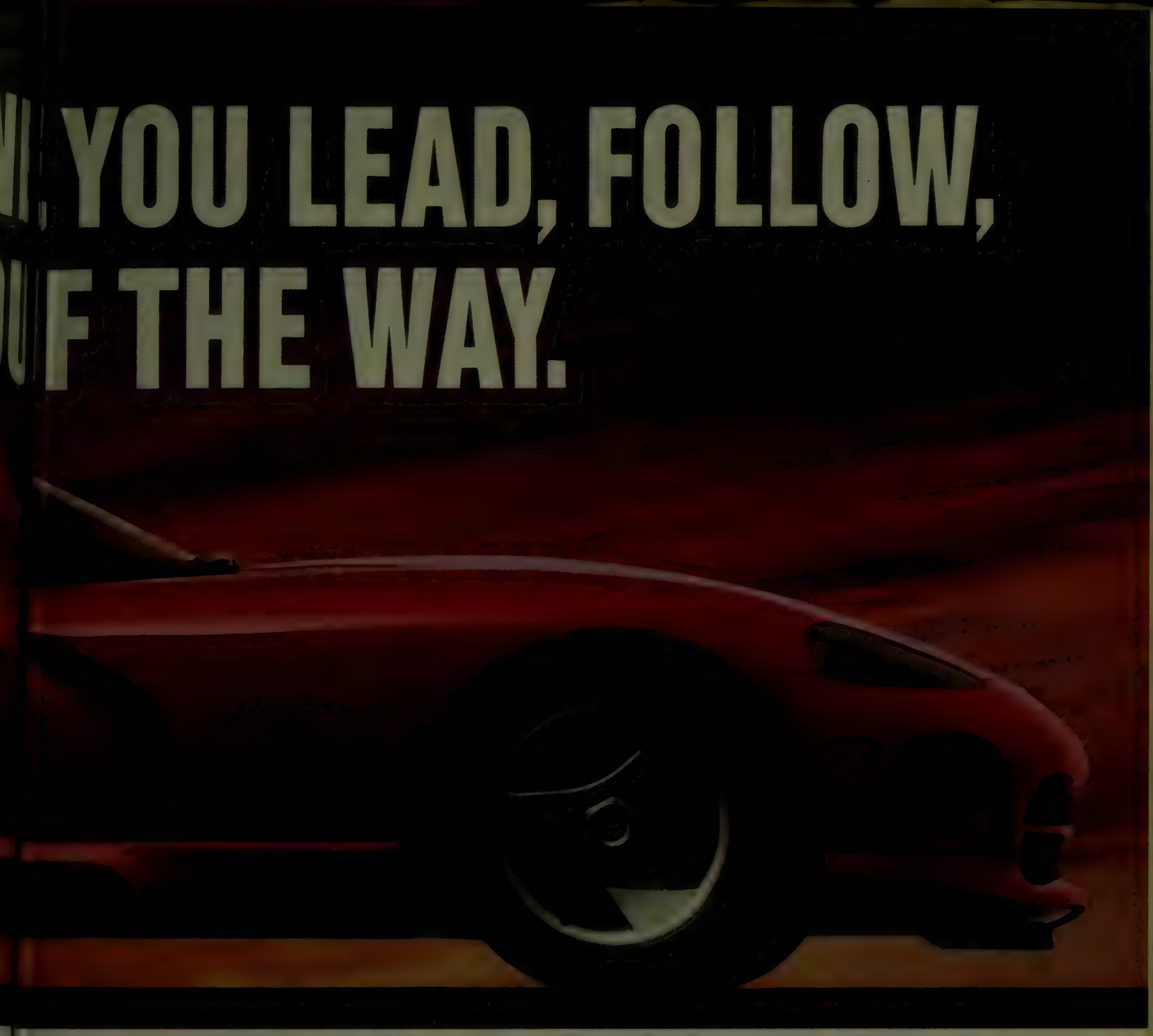

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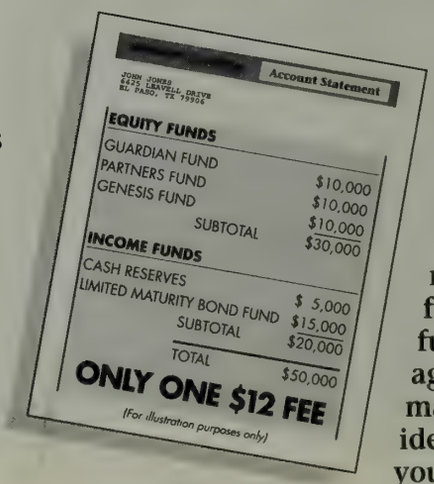

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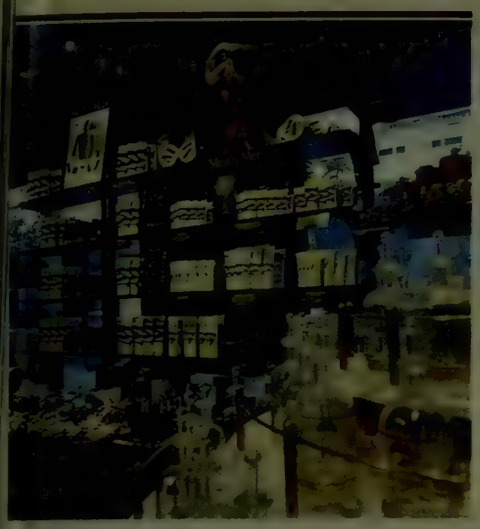

A Body Shop store
Facing stiff competition.

for some 35% to 40% of worldwide cosmetics sales.

Why so few? Because when Roddick decided to make a major push into the U.S. in 1988, she resolved to forgo franchising and to own her own stores. If that meant expanding slowly, so be it. Roddick says that she needed to take her time getting used to the American market: the unions, the regulators and, especially, the malls.

Taking her time proved immensely costly. Roddick's success did not go unnoticed by smart American cosmetics merchandisers. Estée Lauder Co. muscled into the market in 1985, about the same time as Body Shop hesitantly entered the U.S. market. Lauder launched Origins, a "natural" line, piggybacking on Lauder's well-situated counter space in department stores. Today Origins is doing $30 million to $40 million a year, compared with Body Shop's $27 million in the U.S.

The Limited's Leslie Wexner also moved in. In the autumn of 1990 Wexner started a chain of stores called Bath & Body Works, selling similar cosmetics. Wexner now has 100 Bath & Body Works stores grossing $45 million a year. He plans to double the number of stores in 1992. Kmart Corp., too, began marketing a line of natural cosmetics and now sells the Naturistics line in 1,800 stores. Several smaller competitors—among them Seattle-based Garden Botanika, with 13 stores in California and the Pacific Northwest, and a British chain called Goodebodies—are nipping at Body Shop's heels.

The natural cosmetics stores strive to create images of environmental correctness: no need to feel guilty when you use our stuff. Bring back an empty plastic bottle to Leslie Wexner's Bath & Body Works, for example, and the store will give you a quarter, as does Body Shop.

These companies print their literature on recycled paper—not crude newsprint but hefty expensive stock. They can well afford the fancy trappings. Consumers pay through the nose for the stuff, which carries profit margins estimated to be around 15% to 20%, compared with narrow 5% to 8% margins for the mainstream brands.

In late 1990, after two years of eating her competitors' dust in the U.S. market, Roddick decided after all to expand by franchising.

Of the 78 Body Shop stores in the U.S. now, 64 are franchised. New outlets are opening up at the rate of 45 per year. But the Body Shop's U.S. sales per square foot are running at $700 a year—respectable, but well below Estée Lauder's Origins line, which is at the $1,000-per-square-foot level.

Roddick, as self-righteous as she is ambitious, professes to be unconcerned about missing out in the American market. "Our business is about two things: social change and action, and skin care," she snaps. "Social change and action come first. You money-conscious people at FORBES just don't understand."

Well, maybe we lack Roddick's sensitivity, maybe we don't, but we sure know this: Roddick is one hell of a promoter. A public company since 1984, the Body Shop has a current market capitalization of more than $1 billion and its shares sell for more than 49 times earnings and 4 times revenues on the London Stock Exchange. (Recent price: $5.75.)

That's one scary premium price, but some analysts bubble with optimism, predicting endless growth; Anita Roddick seems as adept at wowing analysts as she is at wowing her customers. She and her husband, Gordon, own shares worth not far from $300 million. Now that's social action. ■

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Education is big business. As such, it has developed powerful institutions that fight all serious attempts to change the status quo.

Forces against change

By William Tucker

WITH ALL THE millions of words written—and largely unread—about the educational crisis, people overlook the essential problem: Public education is a $230-billion-a-year industry that badly needs the discipline of a market system to make it responsive to its customers. But like defense and other big businesses, education has developed around it powerful interest groups that oppose serious change. As Lynne Cheney, chairman of the National Endowment for the Humanities, puts it: "The education establishment in this country is not a force for change."

Particularly resistant to change are teachers' unions, the nation's undergraduate and graduate schools of education and the professional societies affiliated with them. About 500 of the U.S.' 1,200 education schools are accredited by the Washington-based National Council for Accreditation of Teacher Education (NCATE). (The other 700 or so are approved by state education departments.) NCATE's board chairman this year is Keith Geiger, who is also president of the National Education Association. The NEA, which represents teachers, is the country's largest union (1.6 million members).

The teachers' unions and the education schools scratch each other's backs. The unions, for example, insist on seniority and additional course work beyond the bachelor's degree to advance a teacher's salary. This assures the education schools a steady supply of students.

For their part, the education schools and related professional societies resist innovations like school choice and vouchers, which would break the public school monopoly by giving parents much more choice in where to send their children for schooling (FORBES, *Nov. 25, 1991*).

Barbara Kinney

Lynne Cheney, chairman of National Endowment for the Humanities
"Bureaucracies, ed schools form an interlocking directorate."

For example, a recent article in the *Phi Delta Kappan,* generally a forum for the educational establishment, warned: "Voucher watchers today can find the enemy coming from every direction." Both *Phi Delta Kappan* and *Education Week,* another establishment forum, have run recent articles disputing the notion that—despite the decline in test scores—American educational performance has been flagging.

Allowing private schools to compete for tax dollars would break the stranglehold that education schools have over teacher training in the public sector. Under current teacher licensing laws, an energetic summa cum laude graduate in history, say, from the University of Wisconsin cannot teach his or her discipline in a public high school in that state without taking a year of education courses. Yet an education major needs only a handful of history courses to start teaching immediately. Most states have similar barriers to entry.

"Education courses often keep the best and brightest students from wanting to become teachers," says NEH's Cheney. Generally the licensing requirements help divert the brightest teachers away from public schools and to the Catholic and other private schools.

"The education schools have job interests, so they won't change," says Ruth Mitchell, associate director of the Council for Basic Education, which has been trying to reform education since 1954. "How you move them short of blowing them all up, I don't know."

Still, there are some encouraging signs of change. School choice is moving ahead rapidly in Minnesota, Massachusetts, Wisconsin and a dozen other states. A few states are reforming teacher licensing laws. In 1986 the Texas State Legislature reduced the number of education credit hours required for teacher certification from 36 to 18—a sensible move that infuriated NCATE. Complains Arthur Wise, president of NCATE: "The [Texas] decision was based on an incorrect presumption that education courses are not valuable for teacher training."

New Jersey also allows college graduates to teach in their area of specialty with only a minimum of education courses. Other states are beginning to follow suit. No establishment can keep the forces of change bottled up indefinitely. ■

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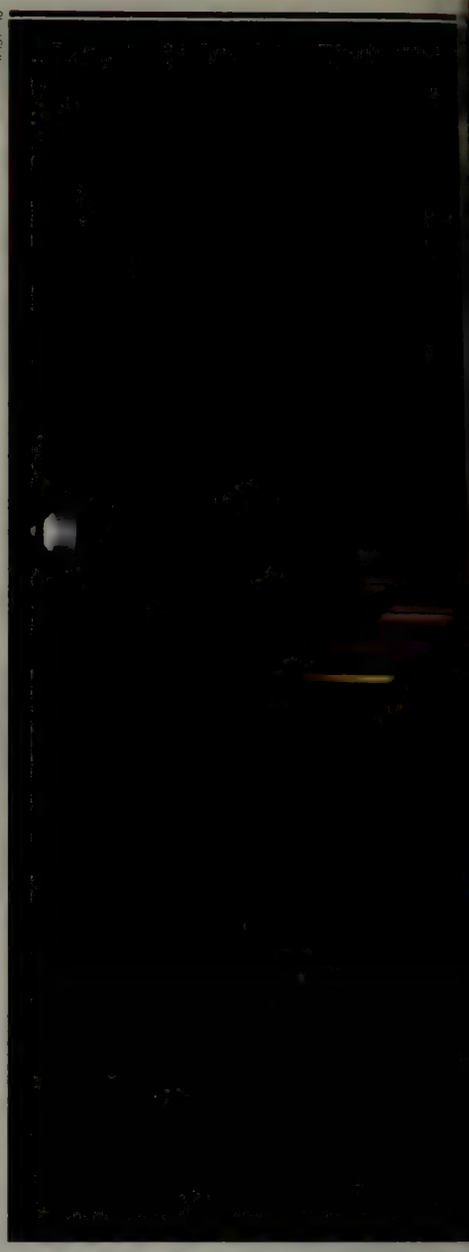
Diet Pepsi's charming Ray Charles "uh-huh" ads were so popular last year that Pepsi will spend an extra $50 million on the campaign this year.

Affirmative grunts


Chad Slattery

YOU HEARD IT here first: April is national uh-huh month. We know because Pepsi-Cola Co. says so. And don't try to dodge it—as Coca-Cola Co. reportedly tried to do by forbidding use of "uh-huh" in its corporate offices when a simple "yup" would suffice. (Coke denies the report.)

Poised to flog the daylights out of its successful "uh-huh" slogan, Pepsi is reportedly ready to spend an additional $50 million this year on the campaign—on top of 1991's budget of about $70 million. All this in hopes of finally catching diet Coke, which has a 9.3% share of the $29.8 billion (wholesale) soft drink market, compared with Diet Pepsi's 6.3%.

In addition to a blizzard of new TV ads, Pepsi will fill supermarkets with life-size cutouts of Ray Charles and the Raylettes—the three black-wigged, gold-sequined girls who chant "Uh-huh!" after Ray sings "You got the right one, baby." Photo "opportunities"—Pepsi's word—will be available with the cutout figures. Customers can also record their own versions of the "uh-huh" jingle at Japanese-inspired *karaoke* booths.

One million cases of Diet Pepsi will be mailed to confirmed diet Coke drinkers via U.P.S. Tasting booths will appear everywhere. As will the three Raylettes themselves, who are currently learning how to sing and how to handle live crowds—two things they don't do in Diet Pepsi's TV commercials. (The TV Raylettes are not to be confused with Charles' touring backup singers, who do indeed know how to sing.)

Pepsi even flirted with the idea of tagging diet Coke as the drink with a snide "unh-unh." It won't because, among other things, Pepsi's lawyers reportedly worried that the gibe implies diet Coke might actually make you sick. And if all this is hard to keep track of, turn to *USA Today,* where Pepsi will run an "Uh-Huh Update" column throughout the month, with news of "uh-huh" events coming to a mall near you.

Enthuses David Novak, Pepsi's top marketing man: "If you don't have something big to say, you shouldn't do this. But no one else has 'uh-huh.' It's ours. We own it. It's a pay-dirt line for the next ten years."

Diet Pepsi stumbled on this marketing mother lode almost by accident, when the "uh-huh" ad campaign made a splash during last year's Super Bowl. Before that, Diet Pepsi had been changing forgettable slogans frequently, and 1989's "the right one" felt wrong. "It was a bit stilted and marketingese," says William Katz, who heads the Pepsi account at ad agency BBDO.

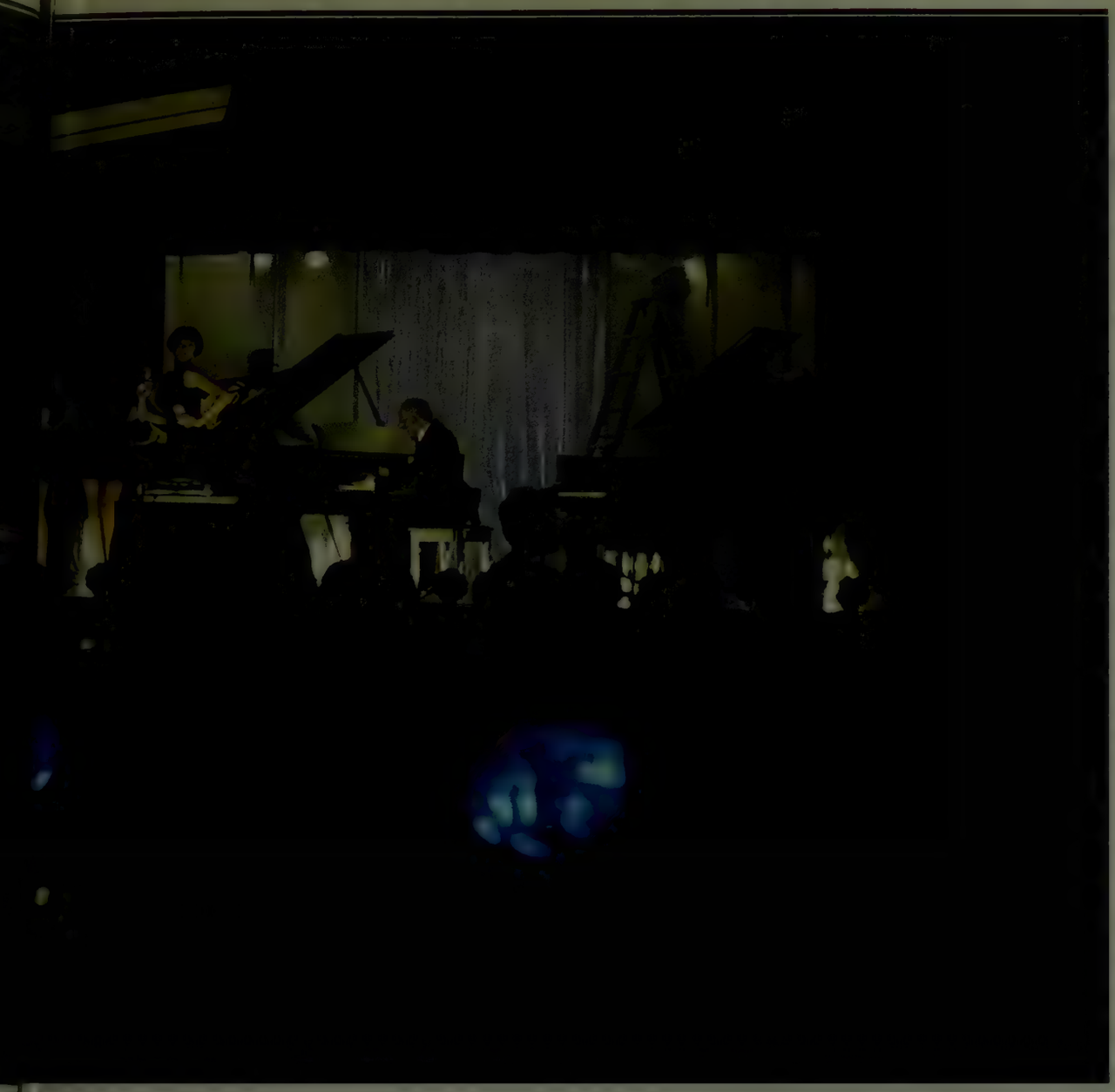
Enter Ray Charles, who had proved unexpectedly popular in a one-shot Diet Pepsi commercial in the fall of 1990. Tailoring the "right one" phrase to Charles' jivey delivery, BBDO Creative Director Alfred Merrin and jingle writer Peter Cofield threw in an obligatory "baby" and found themselves with two syllables left over for the Raylettes. "It could have been 'doo-wop,' " says Merrin. Let history record, it was "uh-huh," a two-syllable grunt that embodies "affirmativeness," explains Merrin.

Pepsi management never expected what came next. Diet Pepsi came in first in Video Storyboard Tests' ranking of the most popular commercials for each quarter of 1991—an unprecedented feat. More important, Diet Pepsi had closed the "forced choice" gap with diet Coke. This test measures image by asking customers to pick only one of two competing brands. Diet Coke had always led Diet Pepsi by about 70% to 30%. Novak says Diet Pepsi now leads 52% to 48%.

Ray Charles is doing all right, too—taking home an estimated $3 million from Pepsi after renegotiating his original one-year contract.

The next step calls for Diet Pepsi to take "uh-huh" from a slogan to an actual ingredient of the product—the one with the "uh-huh" in it. "Very few companies would have the audacity to do that," says BBDO's Katz.

The new strategy showed up in a commercial on this year's Super Bowl. Set in a Senate committee room, witnesses Ray Charles and the Raylettes



Ray Charles and the TV Raylettes **Rehearsing on the set for an upcoming Diet Pepsi commercial. It's America's favorite ad campaign. But does "uh-huh" sell soda?**

respond "uh-huh" to repeated questions about why Diet Pepsi tastes the way it does. In future commercials the Raylettes will materialize, cooing "uh-huh" whenever someone pops open a can of Diet Pepsi. Gloats BBDO's Katz: "We have an unlimited supply of 'uh-huh.' "

Few dispute that Pepsi and BBDO have consistently created advertising that beats the pants off Coke. Diet Coke has splashy commercials of its own with pop singer Elton John crooning "Just for the taste" in a similarly glitzy number (jingle-gun-for-hire Peter Cofield wrote that one, too). But diet Coke ads—and Coke ads in general—consistently lag Pepsi on the nation's fun-meter.

But do Pepsi's ads sell soda? Unfortunately for Diet Pepsi, soda buyers mostly buy whichever brand is on sale at the supermarket—and one of them always is. Last year the sales gap between diet Coke and Diet Pepsi stayed dead even, according to *Beverage Digest*. As a result, the two competitors' diet cola market shares are exactly the same as before the first "uh-huh" was ever uttered. "This is a distribution business," says *Beverage Digest* Publisher Jesse Meyers. "The bottler decides what goes on the shelf, and all the rest is just conversation."

Pepsi's bottlers agree. "We didn't see much benefit last year," says James Lindsey, president of Pepsi-Cola Bottling Co. of Bakersfield, in California. "We could have done a better job of tying [price] promotions to the campaign, but advertising alone never made the first sale."

In and out of the cola business, many advertisers are taking a jaundiced look at flashy, expensive, mass-media campaigns, and not just because of the recession. At $850,000 for 30 seconds of commercial time during the Super Bowl, for example, how much bang does an advertiser get for its buck? Not much, many advertisers concluded this year, as CBS struggled to sell out the time. Coke was a no-show. Pepsi spent some $6 million to $7 million.

Pepsi won't discuss details of its contract with Ray Charles, but Pepsi's Novak claims they've got rights to the singer "almost forever," which is longer than they'll need him. Says Gerald McGuire, president of Pepsi-Cola General Bottlers, Pepsi's largest domestic franchise bottler: "I think Ray has a good year left, and then you better start looking for a new slogan and a new guy." Uh-huh. –J.L. ■

After many a fit and start, low-load life insurance is finally catching on.

Eliminating middlemen

By Carolyn T. Geer

PLENTY OF FUNDS are no-load. Why can't life insurance be no-load? That's the question James Richards, a Denver insurance executive, asked 19 years ago, when he started offering no-load life insurance by mail. Without a commissioned agent to pay, he reasoned, he could offer much better cash values to buyers of whole life insurance. "We've made the technological breakthrough of this generation in life insurance," Richards boasted to FORBES as he launched the business in 1973.

The business didn't last long. The owners threw in the towel on direct selling of life insurance just three years later.

But the idea of low-load life insurance, sold directly to consumers, refused to die. Now two Texas companies are in the business. One, USAA, of San Antonio, is a full-line insurer that sells mostly to military officers but accepts business from the general public. The second, Veritas, is a three-year-old Houston-based outfit that sells low-load life policies in every state except New York through an 800 phone line. Between them these two companies took in over $45 million last year in first-year premiums on life insurance.

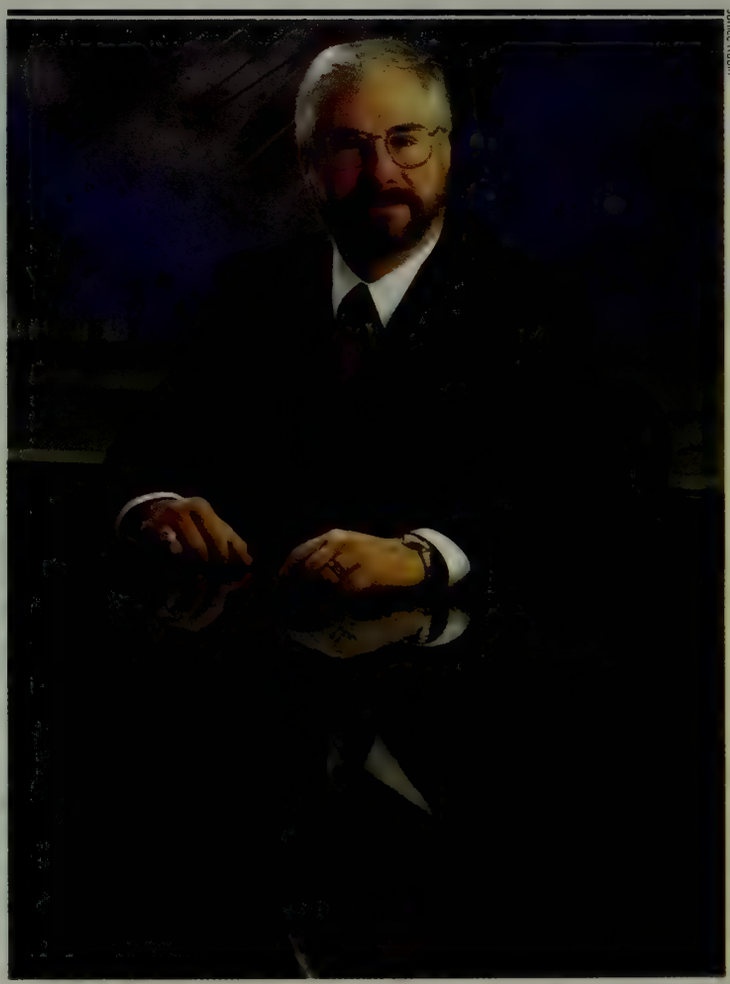
The low-load life insurance companies' prospects are much brighter now than when Richards started his venture. The enormous success of the discount stock brokerage and no-load mutual fund industries has sensitized consumers to the sizable sums they can save by not paying a sales load. Meanwhile, an industry of fee-only insurance planners has arisen. Remunerated by their clients rather than by the commissions they receive from selling products, these planners are much more likely to steer the public into low-load policies. Among the better-known members of this new breed are New York's Glenn Daily, author of *The Individual Investor's Guide to Low-Load Insurance Products,* and Denver's James Schwartz, who tried to market low-load life a decade ago.

The savings from going the low-load route can be dramatic. On a typical full-load whole life policy, commissions and related expenses can eat up as much as 100% or more of the initial premium.

Consider this example: A 45-year-old nonsmoking man can buy a $500,000 low-load universal life policy from Veritas for $8,727 a year. If he were to cancel the policy after one year, he'd get back $8,630, nearly his entire premium. How so? The company invests the $8,727 at about 8%, earning $700; that's just about enough to cover the cost of a year's worth of term life insurance, including expenses. Thus, the company can afford to give back to the buyer almost all his principal. Contrast an agent-sold policy from American General Life Insurance Co. It would have the same premium but a cash value of only $179 after year one.

Warning: Not every policy sold by phone or mail is low-load. Distribution costs for products promoted on radio and TV can be just as high as with agent-sold products. Also, just because a policy is low-load doesn't guarantee it will perform better than a load policy. It's still vital to pick a highly rated insurer with a history of competitive investment returns. The beauty of low-load policies, though, is that you can switch out of them with little penalty.

Despite the virtues of low-load policies, Veritas founder Donald Reiser struggled at first. For two years underwriters refused to work with him. "Insurance companies," explains Reiser, "were worried about upsetting their agents." Eventually, Reiser persuaded Ameritas Life



Janice Rubin

Donald Reiser, founder, Veritas

"My goal was to change the way people buy insurance."

Insurance Corp., a carrier based in Lincoln, Neb. with $1.5 billion in assets, to let him sell its policies. Ameritas had been selling low-load policies through fee-only financial advisers since 1983. But Reiser had to raise the capital to cover his startup costs. "They didn't believe it would work," says Reiser, now 48.

Reiser believed. He took on a dozen partners, raised $200,000 and started selling insurance out of his four-person office. Ameritas paid him only the small marketing allowance built into the prices—10% of the first-year premium and 2% on renewals. Another 6% or so of first-year premiums went to Ameritas to cover its expenses. On a $100,000 policy costing $200 in the first year, for example, Reiser would collect just $20 to start.

That $20 per pop couldn't support much advertising. Reiser's wife, Gay Yellen, a former magazine editor, wrote the copy, worked the phones and got Veritas mentioned in the financial press from time to time. Pretty soon the phones began ringing, and they haven't stopped. A year ago Ameritas bought out Reiser and his partners for just under $1 million.

John Nolendorfs

Veritas President Richard Vautravers

He doesn't expect agents to love the idea.

Interestingly, Ameritas, a 105-year-old mutual company with a top rating from A.M. Best and an AA from Standard & Poor's, still sells life and annuity products through full-commission agents and stockbrokers. Richard Vautravers, the Ameritas executive who now heads up Veritas, says the insurer's agents have by and large accepted the competition. But he adds: "That doesn't mean that life insurance agents in general love what we're doing."

Says Reiser, who remains with Veritas as a senior vice president, "Ameritas has realized it is in the manufacturing business, and in any manufacturing business there are different distribution systems."

Other insurers are scrambling to create their own low-load policies, though most are distributing them through fee-only planners, not directly to consumers. Capital Holding of Louisville, for instance, recently announced its first no-commission policy.

Ameritas' Vautravers says he's not worried about the competition, which is helping make consumers aware of low-load insurance. "If you're the only gas station in town and nobody knows what gas is, it doesn't help much," he says.

AUDI SURPRISE HIT OF TOKYO AUTO SHOW.

At this year's Tokyo Auto Show, an unexpected entry emerged as the runaway showstopper: The Avus Quattro from Audi. The Avus boasts a high-strength alloy body, 509 horsepower, and a 60-valve, 12-cylinder engine. Even more impressive may be its 0-60 time of less than 3 seconds. Since Audi is rumored to be creating only a limited number of this exotic car for the European market, American car buyers may want to consider Audi's other, more practical, new model – the Audi 100 V-6. With 172 hp, ABS and driver's side air bag standard, the all-new Audi 100 also features a more reasonable price tag: $28,500.* –KARL TREUTLER, DETROIT

*Manufacturer's suggested retail price, excluding taxes, license, freight, dealer charges and options. Price subject to change.

Making acquisitions is easy. Knitting them together is tougher. Just ask Anthony D'Amato, whose Borden is the laggard among the big food companies.

Pulling it all together

By Seth Lubove

IF IT'S BRAND names you like, you will love Borden, Inc.'s choice brand names: Creamette and Prince pastas, Classico and Aunt Millie's pasta sauces, Eagle condensed milk, ReaLemon lemon juice, Wise potato chips, Cheez Doodles, Cracker Jack, Cremora and Elmer's glue.

Great franchises all, and adding up to $7.2 billion in annual revenues. Borden ranks first or second in market share in over a dozen product lines, ranging from pasta, snacks and processed cheese to wall coverings, plastic wraps and adhesives.

But listen to Borden Chief Executive Anthony D'Amato: "I'm asking everybody—'If we're so good, guys, why aren't we doing better on the bottom line?' "

D'Amato is asking exactly the right question. After a $72 million (pretax) charge in the fourth quarter for layoffs, Borden's 1991 earnings came in at $2 a share ($295 million), off almost 20% from the $2.46 a share Borden earned in 1990. Borden's profit margins of 4.9% compare badly with Campbell Soup's 6.9%. Its five-year average return on equity of 13.8% ranks near the bottom of FORBES' survey of food processors *(Jan. 6)*. Selling at a recent $33 a share, Borden has a low price/earnings ratio of 17 against 24 for Campbell Soup or 23 for General Mills.

D'Amato, who became chief executive officer last November, started as an engineer at Borden 33 years ago. He thinks he knows where the problem lies. Borden is more a series of businesses than an integrated marketing whole. Under D'Amato's courtly predecessor, Romeo Ventres, Borden transformed itself during the 1980s. It began the decade as a chemical company with a significant sideline in dairy products. It ended the 1980s as a widely diversified packaged foods company with a significant sideline in chemical products and a diminishing position in dairy products. Once the company of "Elsie the cow," Borden cut back on dairy products to the point where they are now the smallest contributor to income.

The strategy was splendid. Wisely, Ventres decided to make Borden a packaged foods company. He spent $1.9 billion between 1986 and 1991 making 90 acquisitions. There was a logic to Ventres' moves. "People think we arbitrarily acquired companies. But we were sticking to six strategic areas," D'Amato says. Borden now has leading market positions across its six major product lines: pasta, snacks, niche grocery items like processed cheese and mincemeat, dairy, nonfood consumer, and films and adhesives.

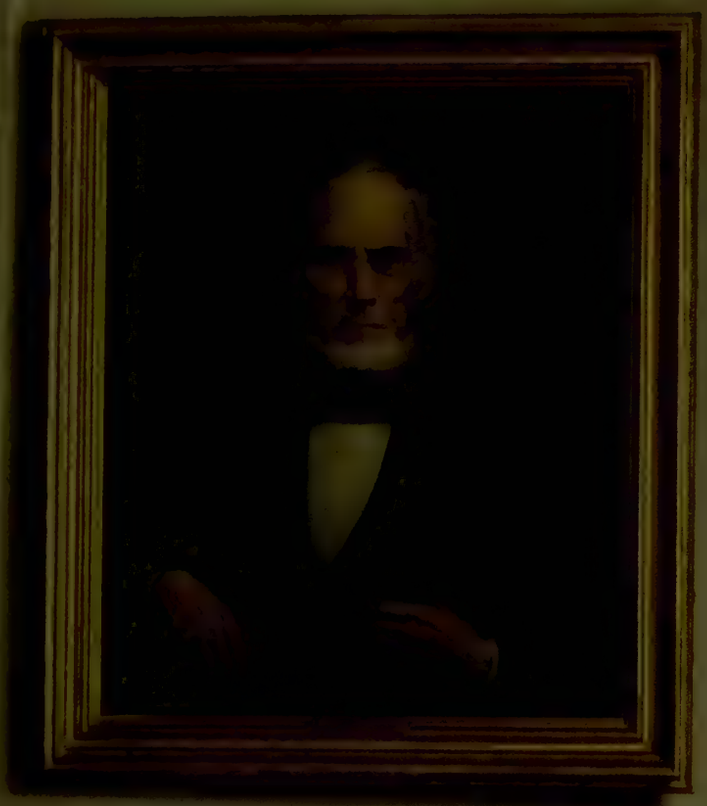
But management was making acquisitions too fast to take the time to integrate them. As a result, it could not take advantage of the economies inherent in selling the same or similar products and forfeited the cost advantages that those synergies provide.

Lisa Bogdan

Borden's Anthony D'Amato beneath portrait of founder Gail Borden

"If we're so good, guys, why aren't we doing better on the bottom line?"

Borden evolved into a decentralized patchwork of loosely related product fiefdoms, each punching data into unrelated computer networks or negotiating independent deals on corrugated boxes with different suppliers. Meanwhile, complementary products, such as pasta and sauces,



were made by separate groups with independent sales forces that didn't coordinate their marketing efforts.

Stepping into Ventres' shoes, D'Amato is concentrating on melding the parts into an efficient whole. Says he: "We were so busy building all this mass we didn't look at servicing the market as a single company. Now I tell people in the company their paycheck says 'Borden.' It doesn't say 'snacks' or 'pasta.' "

Previously, dealing with Borden was a frustrating experience for big retail customers. Wal-Mart, for example, would have to call five Borden divisions to place an order for products like Elmer's glue and wallpaper for its Wal-Mart stores and dairy products for its Sam's stores. Internally, things were so confused that Borden couldn't even track its total annual sales to Wal-Mart.

D'Amato now has one person coordinating Wal-Mart's orders. He is also putting every division through an internal review, looking for ways to cut costs drastically. At times he seems almost at war with his own company, sending teams of internal auditors through departments such as legal, research and medical benefits—traditional cost centers rather than profit producers. "Nothing is sacred," D'Amato vows.

"I found we have a great number of people in the company spending money who aren't accountable for gross margins or the bottom line," D'Amato says. "I find this incompatible in my mind as a businessman."

No longer, for example, will anyone below the rank of regional manager be allowed to sign off on fees paid to supermarkets for shelf space; these fees have risen in some stores to more than $500 a foot per year. "There have been too many people marketing for marketing's sake, rather than to generate anything for the bottom line," says D'Amato.

The integration process is already paying off. D'Amato slashed the snack food group from 12 regional profit centers to 3. In January he decided to cut some 1,300 jobs, mostly in the dairy, food service and Pacific Rim operations. Although the layoffs cost $72 million, Prudential Securities analyst John McMillin estimates annual savings of $50 million.

A modernization program is coming to an end and will help to reduce costs even further. Borden recently opened a new pasta "hyperplant" in St. Louis, replacing an older plant across town. The old plant produced 50 million pounds of pasta products annually, employing 185 people. The new one produces 250 million pounds, using 225 people. With much of the capital spending completed, McMillin estimates free cash flow will double this year, to $150 million, and reach $200 million in 1993.

In an effort to lower Borden's interest rate burden—much of it a legacy of the acquisition binge—D'Amato did some imaginative financing. Borden borrowed $500 million in an off-balance-sheet deal by spinning off several core brand names, such as Cracker Jack, Cremora, Creamette, Elmer's and Wise, for five years to a partnership 77% owned by Borden, 23% by a group of banks. The partner-

David Joel

Potato chips in the making **With new hyperplants, Borden may be able to match production costs even with snack food leader Frito Lay.**

ship then licenses back to Borden the use of the trademarks for the same period. Think of it as a mortgage on the future cash flow of those brands.

Don't get the idea, though, that D'Amato can sit back and relax. With $1 billion in sales in North America from salty snacks like Wise potato chips, Borden is number two in the business, with a market share just under 10%. But it is being squeezed from the top by the market leader, PepsiCo's Frito Lay (with a 44% share), and from below by Anheuser-Busch's upstart entry, Eagle Snacks, now in third place with 5%. Prudential analyst McMillin figures that by trying to preserve its market share through price-cutting, Borden has shrunk its snack food profit margin to about 6% from 8%. But competitors are suffering, too. "I think Frito Lay is in danger of giving it [the product] away," D'Amato contends.

That's pure Tony D'Amato: Outspoken and pugnacious, he is spending about 80% of his time away from Borden's Manhattan headquarters visiting plants and grilling managers. And he's not playing Mr. Nice Guy. "People tended to be complacent that you could miss goals and tomorrow was another day," he says, adding that those days are past. "We have a lot to prove to the outside world. I've told people: 'Either you fit in doing the job that has to be done or we won't hesitate to make changes that will get the job done.' " For as Anthony D'Amato well knows, a franchise, no matter how potentially valuable, is worth no more than the quality of its marketing and management.

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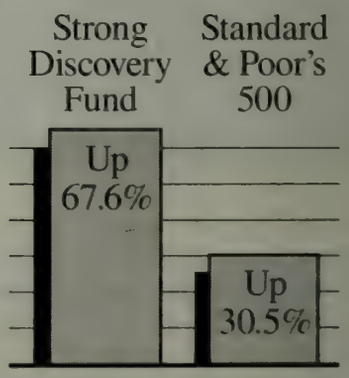

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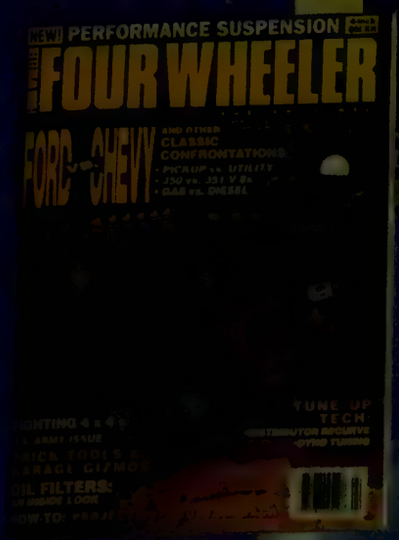

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Bolt Beranek & Newman is technologically innovative, exciting and not very profitable. Why not?

Genius unrewarded

By David Churbuck

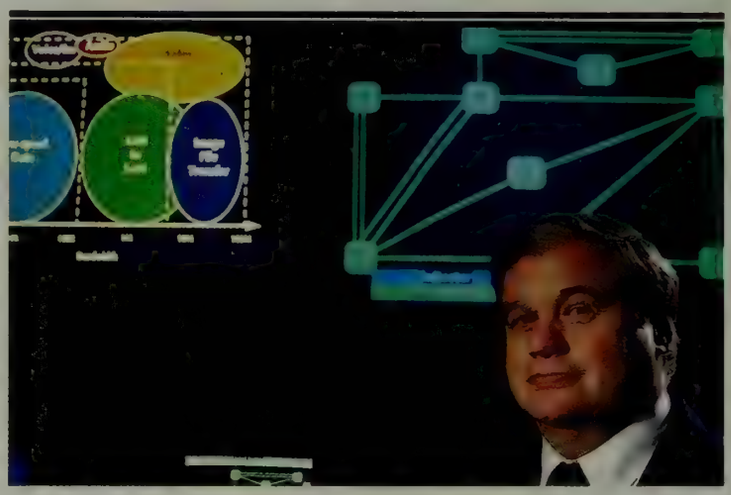
THE HISTORY of technology is littered with companies that made great inventions but failed to get rich from them. Xerox invented the computer mouse and the graphical user interface, but Apple Computer capitalized on those key discoveries. VisiCalc invented the spreadsheet; Lotus Development Corp. raked in hundreds of millions from the idea.

To this list of inventive corporations that are smart but not rich add Bolt Beranek & Newman, a firm that was in at the creation of the computer age. This Cambridge, Mass. company can lay claim to buying Digital Equipment Corp.'s first computer, the PDP-1, in 1959. It designed the first modem for connecting to computers through a phone line; invented electronic mail; was first to publicly demonstrate time sharing, the technique that allows many users sitting at terminals to share the same expensive mainframe; and demonstrated the first computer-based communication system in 1964.

For all this brilliance, the company has been only erratically profitable since 1988. It eked out income from operations of $5.1 million on sales of $271 million in the fiscal year that ended last June. Debt is a steep 210% of shareholders' equity. At 5½, the stock is far below its 1987 high of 30.

Bolt Beranek's problem: It has had a devil of a time focusing its technological prowess into a profitable line of business.

If Bolt Beranek has a think-tank flavor, it's because that's how it started out. Two Massachusetts Institute of Technology professors, Richard Bolt and Leo Beranek, founded the company in 1948, after they landed a contract to consult on the acoustic design of the United Nations General Assembly hall in New York City. Robert Newman, an MIT graduate student, joined not long after.



Senior Vice President W. Benjamin Barker **Putting shortcuts into the switches.**

BELOW: Chief Executive Stephen Levy **Going commercial.**

From auditorium acoustics Bolt Beranek branched into submarine detection systems and further into other military work—software for battlefield simulations and communications and computer networks. With 64% of revenues from government research at a time when defense is going out of style, this firm is badly in need of commercial markets.

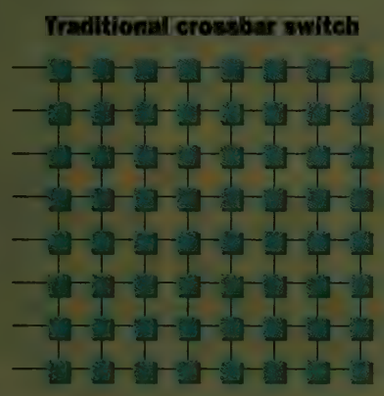
Bolt Beranek's chief executive for the past 16 years, Stephen R. Levy—the three founders have retired or died—is not unaware of the problem. Indeed, Levy, now 51, made his mark at Bolt Beranek in the 1970s, when he established the first commercial packet-switching network, Telenet. Network technology may yet be the salvation of this company.

A packet network supports applications, such as electronic mail, in which data are routed from place to place in packets, at irregular intervals. The beauty of this form of transmission is that several computers can send and receive packets of data over shared telephone lines using a set of switches. In the case of electronic mail, the packets are relayed to a central computer for future delivery, or delivery to multiple locations at the same time.

Levy's Telenet was promising, but it required lots of capital to be developed into a commercial product. Bolt Beranek didn't have the capital, so in 1979 it sold Telenet to General Telephone & Electronics for $65 million.

Levy, a University of Massachusetts graduate in finance and economics, turned his attention to commercial wide-area networking, the technology for hooking together computers miles to hundreds of miles apart. Next, he put the firm into data analysis software—computer programs

Networking



HOW MANY switching elements are needed to connect 8 lines to one another, in all possible combinations? The conventional crossbar switch demands 64. Bolt Beranek & Newman has a different layout that is far more compact.

In this schematic, a BBN-style switch seizes on the last three digits of the input, which make up the address to which the message is going. Starting with the final digit, the switch peels off the address digits one at a time, in reverse order. Each 0 signals that the message should be routed to the upper of two possible outlets; each 1 that it goes to the lower outlet. The switching elements are wired so that a message from any of the eight input lines will, if it's addressed to "110," land in the output box, which is labeled 110.

In a practical application BBN would get even more mileage out of the switching elements than illustrated here, because of some input connections not shown here. And the message—which could be voice, video or computer data—would be much longer than six digits.

that, for example, help take the waste out of a manufacturing line. Those diversifications, though they are small, went well.

Then Levy made a big mistake. He attempted to turn some early government research on parallel computing into a commercial venture. The company poured millions into designing a parallel supercomputer, introduced in 1989, that worked in real time—that is, analyzed data as fast as it came in. Target market: military airplane manufacturers.

"Our timing couldn't have been worse," rues Levy. "Aerospace went into a tailspin, but we had this large investment." He stopped developing new machines in 1991.

Then things did get worse. The cold war drew to a close, imperiling the rest of Bolt Beranek's defense work. "It took us by surprise, and that cost us dearly," sighs Levy.

Levy is now focusing part of his commercialization effort on a key technology called "cell switching." This is actually a variation on his original packet-switching network. The big difference: Cell-switching networks can operate at very high speeds, assign priorities to the packets of data, handle different forms of data including voice and video and, most important, economically grow as the capacity of the communications channels expands.

The typical electronic memo or computer data transmission can arrive a fraction of a second later without losing its value. But other transmissions, the kind that are likely to become much more prevalent as video teleconferencing and multimedia applications become common, are extremely time-sensitive. For example, irregular transmission delays would make a live video transmission look intolerably choppy.

Cell switching promises to solve this problem because it offers built-in priority setting. Thus, a user can have his video calls come though clearly, while less urgent transmissions are transported on a space-available basis. Another feature of Bolt Beranek's switching logic is that it can connect an ever larger number of senders and receivers without an explosive increase in the number of connections *(see diagram)*.

Bolt Beranek is not alone in this potentially exciting technology. The telephone companies are applying cell-switching prototypes to their huge public networks, which also mix video, sound, fax and computer data transmissions. Levy's aim is to ultimately sell the same capabilities to the communications customer, but the first products will be marketed to communications providers.

"We want to move the switching capabilities of the network out of the central office or glass-room computer and onto the users' desktops," says W. Benjamin Barker, a senior vice president at Bolt Beranek. That way, a corporate customer could use the system to route data, audio and video transmissions within its own building, and also save on long distance bills.

No question, networking technologies like cell switching have a bright future, and Bolt Beranek & Newman could someday turn into a real technological growth company. Doing so, however, would contradict the company's history to date. ■

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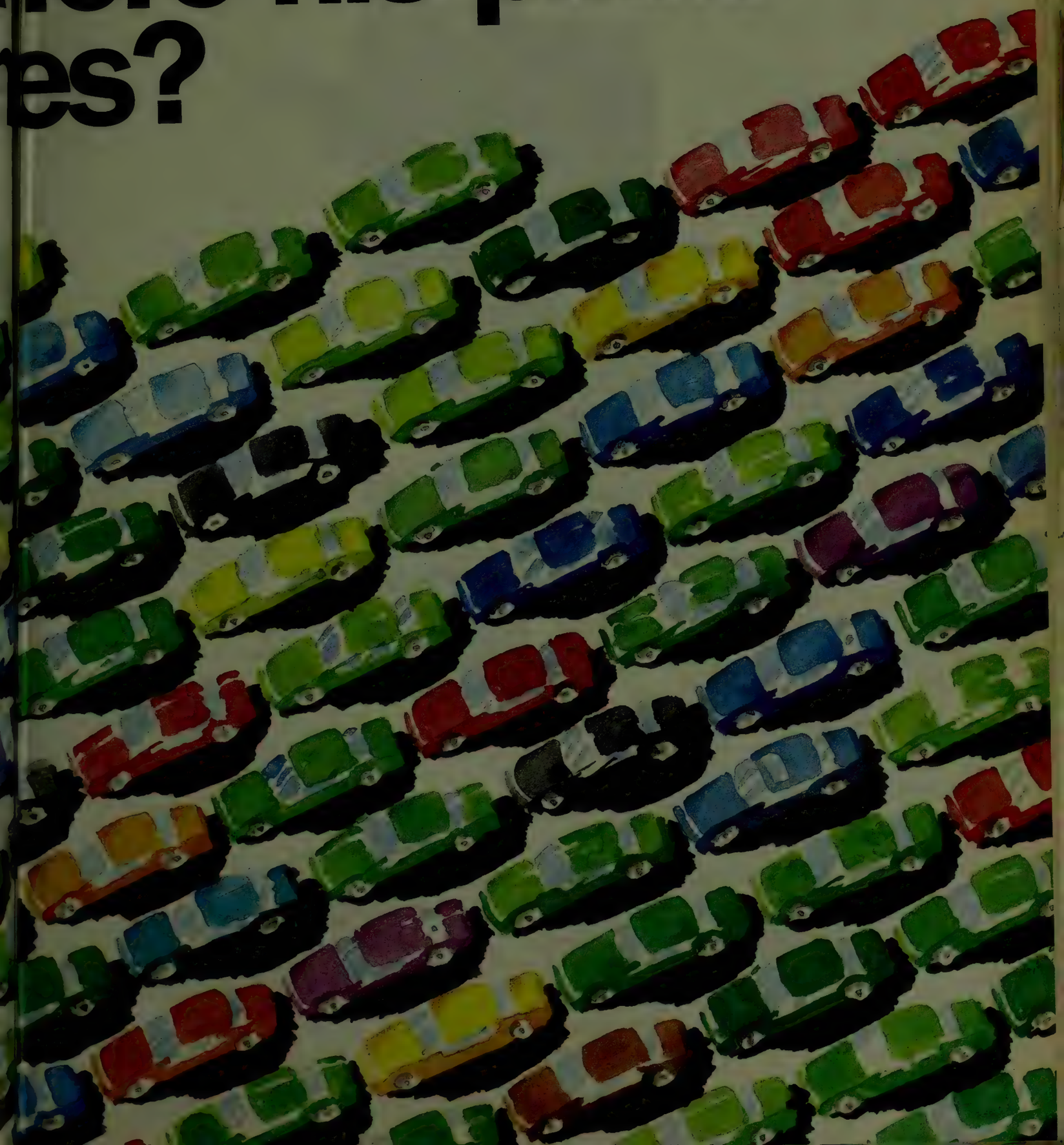

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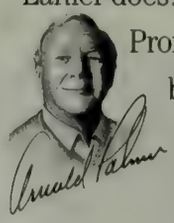

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LANIER RESPONDS

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SCC Inc. sells software to help put out fires a little faster and catch criminals a little quicker.

Rescuing 911

By Reed Abelson

A YEAR AGO the Boulder County, Colo. sheriff's department received a new 911 system. The same day a call came in from an elderly man whose house was on fire but who couldn't speak coherently.

With its old 911 system, Boulder's sheriff's department would have had to wait 45 minutes to trace the call. But the new system displayed the caller's address on the dispatcher's computer terminal the second the call came in. The department responded immediately.

Two-thirds of the country has some form of 911 service connecting callers to an emergency agency. In most places (with some notable exceptions, like New York City) the 911 service routes the call to the closest emergency agency and tracks where the call came from.

The 911 service pioneered by AT&T has been around for 25 years. But the technology involved in answering emergency calls has changed dramatically, opening up great opportunities for telecommunications companies to install new emergency response systems or upgrade existing systems.

What has changed since the phone giant first assigned its engineers to the 911 problem? Computer memory has gotten a lot cheaper. Terminals have acquired color. Telephone circuits provide identification of the calling number. And, finally, geographic information software (FORBES, *Jan. 6*) has come of age.

One upstart company benefiting from these and other advances is Boulder-based SCC Inc., which was responsible for the Boulder sheriff's office's new system. Little SCC (its revenues were $9 million last year) charges around $1 million for an emergency calling system covering a population of 250,000. That price includes customized SCC software running to hundreds of thousands of lines of computer code, 20 workstations and a fault-tolerant Tandem computer with four processors, each with as much as 32 megabytes of memory and 3.5 gigabytes of disk storage.

SCC system in Las Vegas **It beats a stack of index cards with time stamps on them.**

The core of SCC's call-processing and dispatching systems is the geographic coordinates attached to every address and telephone in the territory. Using the coordinates, the system can route the call to the closest police station, fire house or ambulance bay. On its display maps, the system shows critical information about a site, such as whether it's a nursing home or a chemical factory. Emergencies can be tracked within arbitrary regions that are independent of artificial boundaries like police precincts. The dispatcher can arrange information by available emergency vehicles one minute, and rank different kinds of emergencies in descending priority the next.

"They understand what the dispatch officer is trying to tell them," says Carroll Sutton, an administrator for Shelby County, Tenn., which recently bought an SCC system.

SCC was launched in 1979 as a consulting firm called Systems Concepts of Colorado. George Heinrichs and Stephen Meer, two University of Colorado students hired by Boulder's sheriff's department as dispatchers, helped the department computerize. They began informally offering their expertise to other public safety agencies and private companies.

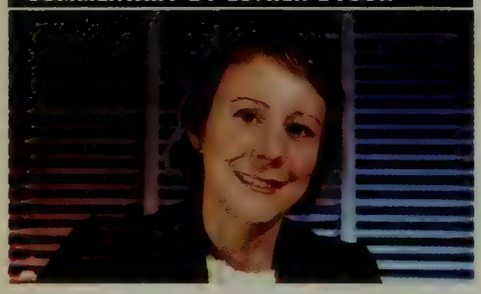
Heinrichs and Meer left the sheriff's department in 1986 to work full-time on the business. Joined by two others, they initially busied themselves with odd projects like developing a flash-flood detection system. "We had vowed not to work on government projects," says Meer, "but we all had reputations from being in public safety. It just kept drawing us back and drawing us back."

Heinrichs' salesmen offer a range of 911-related software products, in use in Boulder County, St. Paul, Las Vegas and elsewhere. The company has sold to four regional Bell operating companies. Often, the SCC software literally replaces a stack of index cards on which a dispatcher would write down information about each call. The dispatcher would time-stamp the card and try not to lose track of it if another call came in right away.

What's Heinrichs going to do when the last third of the country is wired for 911? Sell upgrades. SCC is already developing more sophisticated systems for use in patrol cars. Within a few years, the police officer might have a car computer that would display the quickest path to an emergency, retrieve the registration data that go with a license plate or even show the floor plan of a shopping mall that is on fire. In short, the 911 business is far from mature.

Job losses are mounting: good news?

COMMENTARY BY ESTHER DYSON



Esther Dyson is editor and publisher of the newsletter *Release 1.0.*

TWO ECONOMIC puzzles for our times: One, why have all the billions of dollars spent on computers over the past three decades delivered scarcely any visible productivity gains for white-collar workers? Two, if we're entering an information society, why are we laying off information employees—insurance clerks, accountants, mainframe programmers—instead of manufacturing ones?

The answer to both riddles can be summed up this way: Productivity gains are, in fact, coming to the office; hence, the white-collar layoffs. The unemployment is painful, but is good for the economy in the long run. We will finally see desktop productivity gains. All that money spent on computers will pay off.

Up to now, for all the investments this country has made in "information technology," there has been no visible impact on overall productivity statistics, says Harvard Professor Gary Loveman. Why? Some benefits of the information age were offset by changes in the work we do. For example, the Xerox machine is a wondrous improvement over carbon paper copies, but then we used not to have as many insurance forms to copy in the first place. Productivity rose with photocopying, but the volume of work rose even faster.

These days, however, the office is really getting leaner and more productive. "Thirty years ago [management scientists] Leavitt and Whisler told us that information technology would lead to the disappearance of middle management," says Professor Thomas Malone, head of MIT's Center for Coordination Science. "Maybe it's finally happening."

The catalyst, unfortunately, was recession. The jobs disappearing now will not come back when the recession is over. As AT&T Chairman Robert Allen was recently paraphrased in the *Wall Street Journal*: "With better technology . . . AT&T simply needs fewer workers."

Large companies don't like to lay off workers unless they have to. As a result, the productivity benefits of information technology don't get realized until economic conditions force companies to make cost-cutting moves they could—and should—have made earlier. In some cases, companies may realize that they've hired new people to read reports that they hired other people to produce. They can't afford that anymore. Although some firms face drops in production, most are simply aiming for higher productivity—and market share gains from lowered prices.

For many years, technology has enabled AT&T to get more and more long-distance phone traffic out of its work force. But it resisted firing workers. Today AT&T faces stiff competition from MCI and Sprint.

Change is often unpleasant. The layoffs make people worry that the economy is going downhill. This is hardly a new phenomenon. In the last century the Industrial Revolution put millions of farmers out of work in England; pundits worried that the country was losing its agricultural base (the hollow farm?), much as we're worried now about our manufacturing and services base. But just as agriculture kept producing more food with fewer workers, so our factories and offices will produce more goods and services with leaner payrolls.

Once the productivity effects are widespread and the information economy begins to grow, demand will grow for information employees—not doing routine clerical tasks such as filing, but doing more inspiring jobs such as design. These information workers will use technology to augment creative work as well as to replace boring work.

While the best-paid workers will be leaders or designers—of goods manufactured automatically, transactions carried out electronically or services performed by humans—less well paid workers will perform most of those services, such as nursing or teaching or waiting tables (while fast food will be handled by machines). These workers will leverage the design skills of the higher-level workers, carrying out semiroutine tasks that require the human touch.

At least, that is what will happen if people have the right skills. To ensure that people do have the right skills, we need to have a forward-looking educational policy a lot more than we need a backward-looking industrial policy. Many of the white-collar workers currently being laid off are capable of working as teachers or trainers. Just as we had a Public Works Administration in the Depression, perhaps we should now create a Public Teaching Administration—separate, please, from today's public education bureaucracy.

Or perhaps the way to get better-educated workers is through tax breaks and other incentives for private schools and training centers.

The most valuable asset that belongs to a country's people themselves is their education. Plants and equipment can be sold, manufacturing jobs can be moved overseas, but the true wealth of a nation is the sum of its citizens' abilities to perform work—knowledge work—that will earn them a comfortable living. ■

lightmare Scenario #2

THE RUNAWAY CASH SUCKER.

"Why didn't someone tell me this @$!?& network would cost so much?"

A lot of executives go pale when they see how much their computer networks are really costing them.

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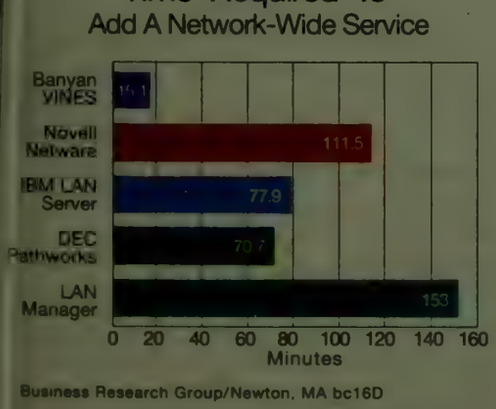

For sheer cost-effectiveness, Banyan surpasses everyone.

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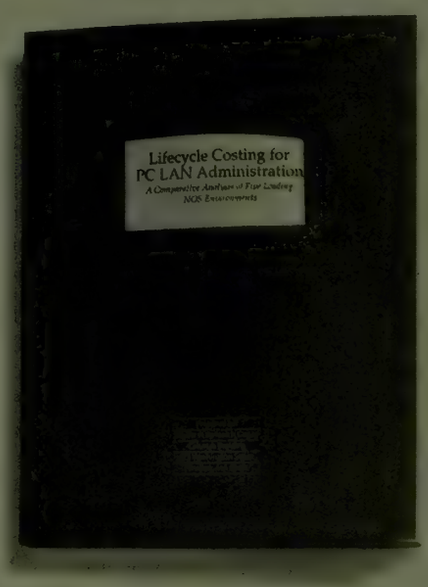

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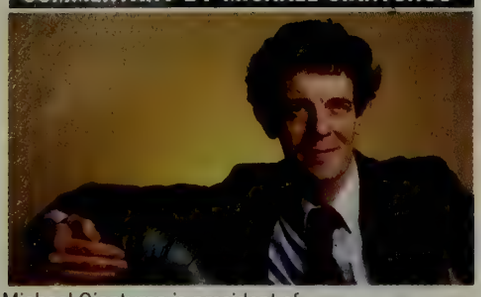
COMMENTARY BY MICHAEL GIANTURCO



Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

AFTER NINE YEARS of technical development and teething problems, the fax modem has finally and rather abruptly matured. A fax modem is a device that enables desktop and portable computers to exchange faxes over the phone with similarly equipped computers—and with any of the world's 32 million conventional fax machines. It seems like a good time to take a fresh look at fax modems, and at the stocks that may benefit from the boomlet in fax modem sales.

Americans bought 655,000 fax modems in 1991, doubling the 1990 total. Market researcher Dataquest estimates that 8 million fax modems will be in place by 1995, five times today's count, and that sales of these tools will reach $1.1 billion that year.

Let's look at fax modems from the consumer's point of view. Mine cost $188. Communication software usually comes with the fax modem, but you should probably add another $100 to $150 to get character recognition software. Withal, about $300 to equip your computer for fax communications. In addition to eliminating the manual steps of printing out pages and then hand faxing them, the fax modem provides higher graphic quality. Computer faxes are far crisper than ordinary faxes.

Compared with electronic mail sent by a data modem, facsimile is still a slow and inaccurate medium. This is because a fax sends digits that describe each dot of ink on the page, while a data modem sends digits representing each alphabetic character on a page of text. There are, of course, many fewer characters on a page than dots of ink.

But data modems are notoriously fussy. Before sending a message, you have to call the person at the other end and haggle over parity bits and whatnot. Fax machines handle these electronic protocols on their own. That's why electronic mail is largely a tool for computer fans, while the fax is for the masses. All this may change someday. In the meantime, you can't go wrong buying one of the fax modems (the majority) that double as data modems.

Receiving a fax on a fax modem can be frustrating compared with other modes of computer communication. This is because a faxed page captured by computer is a frozen image, just like a photograph. To edit, alter or process on screen the information on a faxed page, you may find yourself printing it out on paper and then manually typing the information right back into your computer.

Unless, that is, you have the new character recognition software. With it you can "read" an incoming fax into your word processor, spreadsheet or database, so you can work on it or store it as a highly compressed text file. Ordinary fax files waste a great deal of disk storage with their elaborate descriptions of black and white dots.

Calera Recognition Systems, a privately held character recognition software company in Sunnyvale, Calif., offers a recognition program called FaxGrabber. It sells at a typical discount price near $100.

Once you have received a fax and filed it on your computer's disk, FaxGrabber scans the digitized page and figures out what letters and numbers are in the image. When it finishes, it hands over a translated file to your word processor, ready to edit or print as you wish.

Do you see investment potential here? There are three ways to invest in the business: in the fax modem manufacturers, in the manufacturers of the semiconductor chips that go into the modems and in the publishers of software that controls them.

I would skip the stocks of fax modem manufacturers—the obvious ones being Zoom Telephonics and U.S. Robotics—despite their superb recent revenue growth. There are suddenly about 60 fax modem manufacturers in North America. It is inevitable that price competition will pressure profits. The $50 fax modem is going to become commonplace.

Flanking the modem manufacturers are the software and semiconductor companies. Their stocks seem like better bets. The biggest fax chip maker is Rockwell International's Digital Communications division, with perhaps 75% of the business. But Rockwell is a $12 billion company, so its fax chip sales will not make a ripple at the bottom line. Exar Corp. and Sierra Semiconductor are much smaller companies with significant market share in fax modem chips. Exar has not had a particularly steep runup and is a fair buy at 22.

Software stocks? The winning fax communication software is Winfax. This simple-to-use program first hit the software bestseller lists last fall, and is the creation of a small, publicly held Toronto company called Delrina Technology. IBM Canada has invested substantially in Delrina, so it has IBM's implicit seal of approval. Delrina also has significant sales to the U.S. Department of Defense for forms software. But this is nevertheless a development company with no earnings.

In addition to its Winfax communication software, Delrina Technology owns rights to BackFax, a character recognition program developed for the Macintosh. It doesn't yet offer a recognition program for IBM-compatibles to compete with Calera's FaxGrabber, but it is working hard to develop one. This speculative stock recently traded on the Toronto Stock Exchange near 3½ (Canadian). ■

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Thinking of buying a new computer for yourself or the kids? There are now five basic distribution channels to choose from.

Pick a channel

By Steve Kichen

HAVE YOU BEEN eyeing a more powerful personal computer? Are the kids ready for some serious computing? Prepare yourself for sticker shock. Today's powerful PCs, as muscular as the mainframes of a decade ago, can be had for as little as $1,000 to $3,000, with Microsoft Windows and other popular programming features often thrown in for free.

Personal computers are like most other consumer items: Where you shop makes a big difference in what you pay and what support you get. There are now five distribution channels to choose from: small dealers, major dealers, superstores, mail-order houses and computer shows.

Some buyers still think that the safest place to buy a PC—especially for the first time—is at a local dealer. The theory is your local guy may charge a bit more but can provide a lot of personal attention. In fact, PC pricing has become so competitive and margins so slim that a small merchant may not be able to provide much handholding.

Big stores specializing in computers and office equipment are clobbering the small dealers. According to Link Resources, a New York-based research and consulting firm, computer superstores have even replaced mail-order outlets as the most rapidly growing sales channel for PCs.

Computer City SuperCenters, for example, a new subsidiary of Tandy Corp., has 8 such stores now and plans to open 12 to 15 more this year alone. Each store averages 25,000 square feet and stocks not only Tandy products but also equipment from leading brands such as Apple, Compaq, AST, Hewlett-Packard and Magnavox. Alan Bush, president of Computer City SuperCenters, says customers get plenty of help, too, since the chain's salespeople are salaried, not commissioned.

If there aren't any superstores near you—and often even if there are—then buying by mail makes sense. In 1991 approximately 720,000 PCs were sold by mail, by companies like Gateway 2000, Zeos, Northgate, Dell, according to Link Resources' Andy Bose. Even giant Digital Equipment Corp. has begun to sell its PCs by mail. Dennis Schneider, director of marketing for Digital's U.S. desktop business, says Digital provides 24-hour support service and promises to help business customers with all aspects of their computer systems, particularly their networks. If Digital is successful, don't be surprised if IBM and Apple open their own mail-order operations.

Unlike most dealers, few mail-order houses will haggle over prices. But prices are dropping so fast you might get a pleasant surprise. "When I called up to order a computer they told me that it was going to cost $400 less than the catalog price," recounts Fred Mackerodt of New York City, who recently bought a computer from Gateway 2000, one of the nation's largest mail-order firms. "Not only that, they said the new price included a monitor upgrade."

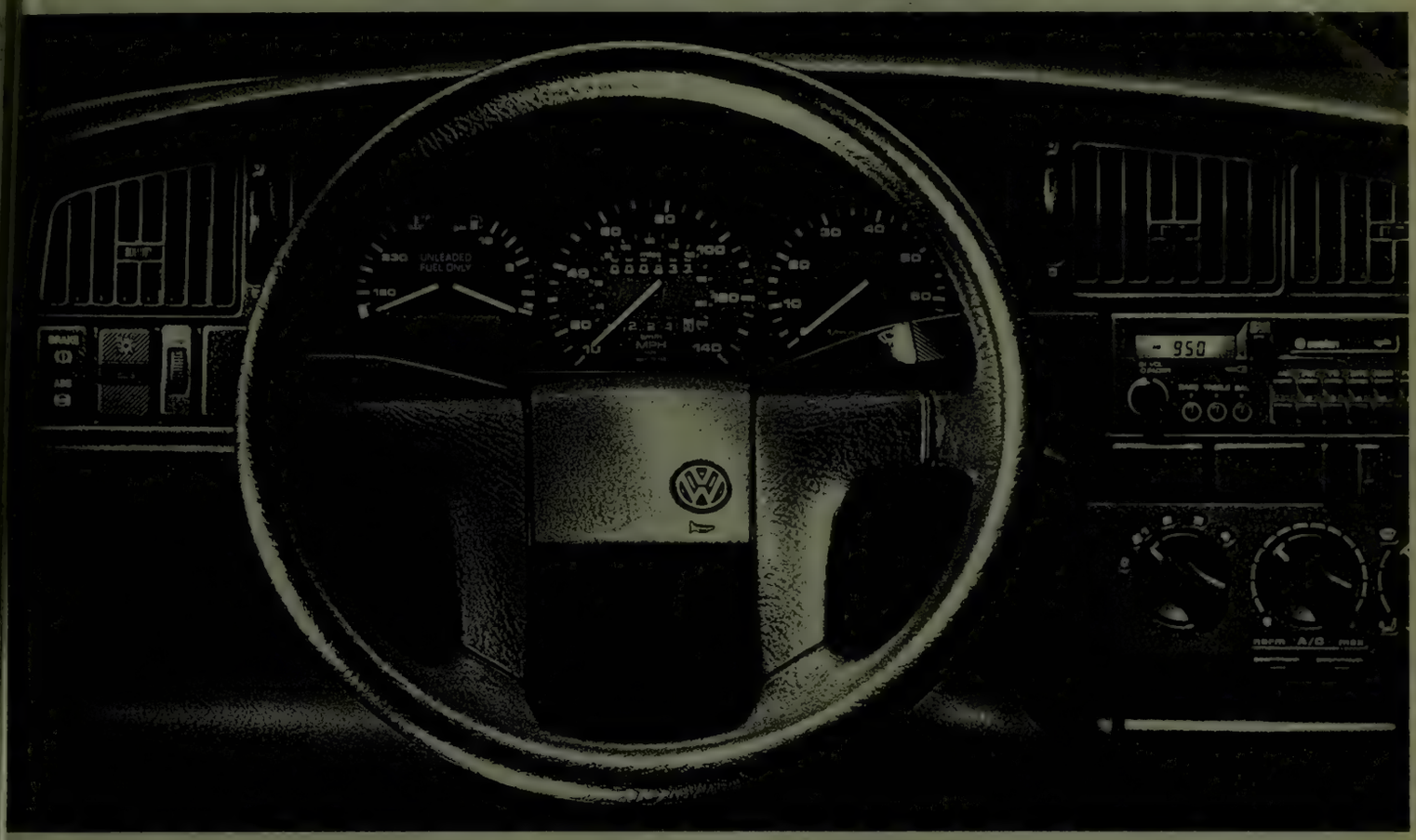
Surprising as it may seem, some big mail-order dealers offer customers service as good as—if not better than—the local dealers, thanks to high volume and low-cost operations. Some mail-order companies provide 24-hour technical support telephone lines, round-the-clock electronic bulletin boards and fax service. Some even have roving reps who will make house and office calls. Note, however, that this kind of service might cost extra, so ask in advance.

Remember that no matter which PC you buy or where you buy it, the odds are your biggest problem will be configuring the software, not faulty hardware. All PCs have similar modular parts inside: a motherboard (main

Frederick Charles

Recent computer fair at William Paterson College in Wayne, N.J. **If you know what you want and can risk brand X labels, such shows are the cheapest places to buy.**

GRAB THE RECESSION BY THE HORN.



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printed circuit), a hard disk drive, one or more floppy disk drives, a power supply and accessory cards. Whether it comes from IBM, Compaq, Dell, Tandy or Taiwan, chances are that it has a microprocessor, or central brain, made by Intel or Advanced Micro Devices. If you do have a problem with a PC under warranty, mail-order dealers will usually ship a new part via overnight delivery.

Where to find mail-order dealers? Best bets are computer magazines and catalogs (especially *Computer Buyer's Guide and Handbook* and the monthly *Computer Shopper*).

It may be smart to use a charge card for any mail-order purchase, even if you intend to pay in full. That's because the card gives you leverage if something goes wrong. Moreover, retail purchases made on some cards are automatically insured against theft or breakage, but check with your card company for time and dollar limits.

Look for a PC that comes with a manufacturer's written warranty. Some credit cards, such as American Express and Gold MasterCard, automatically double the warranty up to one extra year, but they don't extend this benefit to a dealer's warranty.

Return policy is another consideration. The standard practice is a 30-day money-back guarantee. Don't buy otherwise.

After dealers, superstores and mail order, yet another way to buy a PC is to go to a computer show, a rapidly growing distribution channel. One outfit alone, KGP Productions of Kendall Park, N.J., will put on 35 to 40 computer shows along the East Coast this year, from Massachusetts to Virginia. Most of the shows are near major population centers and are advertised through local newspapers, radio, TV, billboards, computer publications and direct mail.

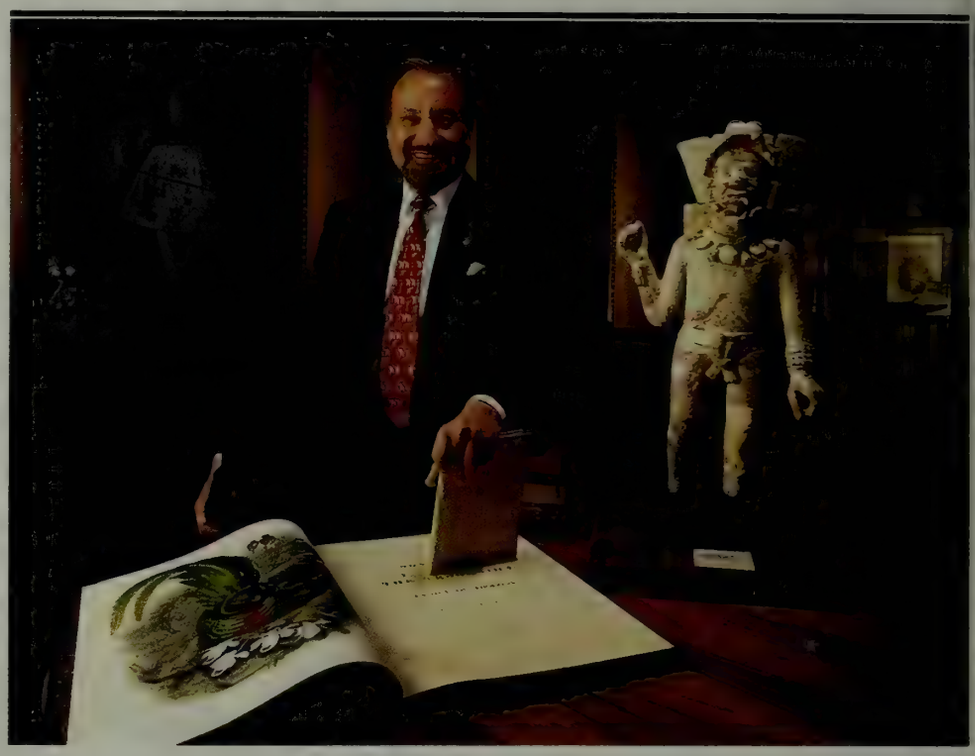
At computer shows, you pay least for the computing power and performance you get. Don't expect name brands or even a lot of documentation. But if you know exactly what you want and know enough about computers to fix the minor problems that sometimes pop up with new PCs, this could be the way to go.

Wherever you buy, you're sure to be amazed at how much computing power your dollar now buys. ■

If you thought living in the time of Columbus was dangerous, try collecting in it.

1492 and all that

By Christie Brown



Jay Kislak with early Americana and pre-Columbian collections

The discoverers' records and the discovered's ancient legacies.

JAY KISLAK'S collection straddles the 500-year-old line drawn when Christopher Columbus arrived in the New World. Over the last 30 years Kislak, 69, has amassed some 11,000 post-1492 items—maps, manuscripts and books, including original documents and first-edition accounts of discoveries by Columbus, Hernando de Soto, Hernando Cortés, Nuñez Cabeza de Vaca, Sir Francis Drake, Francisco Vásquez de Coronado and Juan Ponce de León. The documents—written in Latin, English, archaic Spanish and German—are full of tall tales and stories of treachery and bloody battles.

On the other side of 1492, Kislak has an equally impressive collection of pre-Columbian art objects, dating back to 1500 B.C. They include objects made by the Olmec, Maya, Inca, Aztec and Arawak cultures, most of them used in rituals and burials. Among his prize Mayan pieces are a snarling 25-inch-tall clay jaguar (A.D. 600-900), 4-foot-high painted funerary urns (A.D. 1200-1400) and a clay container in the shape of an ancient ball player (circa A.D. 400).

The pre-Columbian artifacts, all unique, can cost much less than Columbus-era documents, often published in considerable numbers. Last October, for example, Kislak spent $231,000—one of the highest prices he has ever paid—for five engravings of Sir Francis Drake's maps of his 1585 voyage to the West Indies. In contrast, Kislak has never spent more than $100,000 on any of his pre-Columbian pieces, and usually much less. He recently spent about $5,000 for a Mayan cup (A.D. 250-450) with six incised hieroglyphics that read "This is my chocolate cup." (Kislak took a sum-

ner course in ancient hieroglyphics at the University of Texas in Austin.)

"It doesn't belong on a pedestal," says Kislak of the cup, "but historically it's important."

The Columbus cinquecentennial has brought a bumper crop of Columbus-related material to the market. Take Columbus' famous 1493 letter written to the King of Spain extolling the wonders of his initial discoveries. The letter was published in Latin and distributed throughout the courts of Europe, rather like a newsletter. Only a handful of copies survive; one of them is the most treasured item in Kislak's collection.

The last time one of these Columbus letters was sold at auction, in 1966, it fetched $30,000. But in the past year three copies have come to market. H.P. Krauss, a Manhattan dealer, is offering one now for $650,000.

Mayan jaguar (A.D. 600-900)
Used in sacrificial rituals.

Kislak, who owns a Miami Lakes, Fla.-based banking, commercial real estate, finance and insurance company, was always a keen student of history. As a young man he started collecting books on the discovery of Florida, Mexico and the Caribbean. He developed an interest in archeology as well, flying his Cessna to digs at ancient sites throughout Mexico, Guatemala and Honduras, where the great Mayan empire thrived from A.D. 200 to A.D. 900.

Then, in 1980, while visiting Sotheby's in New York, Kislak wandered into a sale of pre-Columbian artifacts. By the end of the afternoon he had bought three Nazca bottles and a gold pendant, each for less than $1,000.

Collecting pre-Columbian art and other antiquities involves thorny questions of provenance and authenticity. The Unesco agreement enacted in 1970 protects the cultural heritage of all member countries, making it illegal in most cases to export antiquities from the country of origin. Kislak says that's why he buys all his pre-Columbian objects in the U.S. Favorite sources are Sotheby's and two New York City dealers: the Merrin Gallery and Fine Arts of Ancient Lands.

Effigy box (A.D. 800-1000) from Quiche Maya culture
Fakes and stolen goods plague antiquities collecting.

To avoid fakes Kislak often pays independent appraisers for second and third opinions and consults experts from Princeton University, the National Geographic Society, the Detroit Museum and elsewhere. In 1989 he hired Lee Parsons, a pre-Columbian scholar formerly with the St. Louis Art Museum, to work as full-time curator of his collections.

High-quality fakes are also rife in the field of early Americana maps, documents and manuscripts. To minimize his risks Kislak buys his post-1492 pieces from such sources as Sotheby's, Christie's, and major dealers like Maggs Brothers in London and New York dealers Graham Arader and Kenneth Rendell. Rendell, you may recall, was the man who in 1983 exposed the Hitler diaries as forgeries.

Despite these precautions, Kislak has been tripped up three times—not by fakes but by stolen items. Each time he got a refund, but only because he sticks to big dealers. Just last year he was notified by a dealer that a second Columbus letter he owned had been stolen from a library in Italy.

Kislak has formed a foundation that now owns about 10% of the two collections. Eventually he plans to give all the art to the foundation, which he hopes to have affiliated with an institution. Much of his collection is on display in his Miami Lakes offices; the galleries are open to the public by appointment (Phone: 305-364-4100, ext. 608).

Lone star rising

LENA GUERRERO thinks Northerners have been living high on the hog at the expense of poor Texas oil and gas producers, and she aims to do something about it.

Guerrero, 34, is the new chairman of the Texas Railroad Commission, which—never mind the name—regulates oil and gas production in Texas. The problem: Texas' natural gas glut. Up until now the commission set its production quotas according to what buyers estimated they would need the next month. But buyers usually guessed high, and supply usually exceeded demand. Result? This winter prices have been squeezed to a record low of 92 cents per 1,000 cubic feet.

Publicly, Guerrero insists she wouldn't try to raise gas prices. But she has proposed a new quota system that would let her cut production. Her plan: To quit relying on buyers' estimates. Instead, the commission will make its own projections based, among other things, on historical patterns. Says Guerrero, "It is the only way to strengthen the industry so it not only survives but flourishes."

A protégé—right down to the bouffant hairdo—of Texas Governor Ann Richards, Guerrero was born in south Texas, learned English at a Catholic grammar school, and worked summers picking corn for 65 cents an hour after her father died. She got a scholarship to study broadcasting at the University of Texas in Austin and in 1982 started a Spanish-language advertising agency.

The elections that year were good for her business—clients included Richards and Senator Lloyd Bentsen—and a stepping-stone to public office. Two years later, at 26, she ran for the Texas House of Representatives and won. A year ago Richards appointed her to fill out a term on the Railroad Commission.

The politically savvy Guerrero faces an election campaign this year. And so far she is telling independent producers—an important Texas constituency—exactly what they want to hear.

"I'm not in any hurry to leave," says Guerrero. "I'm having a wonderful time." —MANJEET KRIPALANI

Taking over

IN JANUARY David Rockefeller Jr., 50, was picked by 22 fourth-generation Rockefellers known as "the cousins" to succeed his father as chairman of Rockefeller Financial Services. That's the $3 billion (assets) holding company that manages the family businesses.

But you don't have to be family to keep an account there. About 20% of the firm's assets represent other people's money. For investments starting at nine figures—and a sliding management fee of 1.5% to 0.75% of assets—clients can tap the Rockefeller organization's contacts and expertise in global asset management. Or they can invest in Venrock, the venture capital subsidiary that financed Apple Computer and dozens of other start-ups. Or use Rockefeller lawyers to handle tax and estate planning.

Interested in philanthropy? "Whether you just want to give money or join a board of directors, we can help," says David Jr.

A Harvard law graduate who has devoted his life to such nonprofit organizations as the Boston Symphony Orchestra, the American Academy of Arts and Sciences, and the Museum of Modern Art, David Jr. hopes the charity services will be a big draw. "There are extremely few financial services companies that have a philanthropic element run by first-class professionals," he points out. "We believe this is a very good area for expansion and for the attraction, frankly, of families with values which fit with ours."

—JEAN SHERMAN CHATZKY

Betting on the future

IF ACID RAIN abatement and privatized transportation systems ever catch on, Bruce Wilkinson is going to look real smart.

Wilkinson, 47, is chairman of CRSS,

Zigy Kaluzny/Gamma-Liaison

Oil and gas regulator Lena Guerrero
Having a wonderful time.

Jonathan Leone

David Rockefeller Jr., Rockefeller Financial Services chairman
The cousins' choice.

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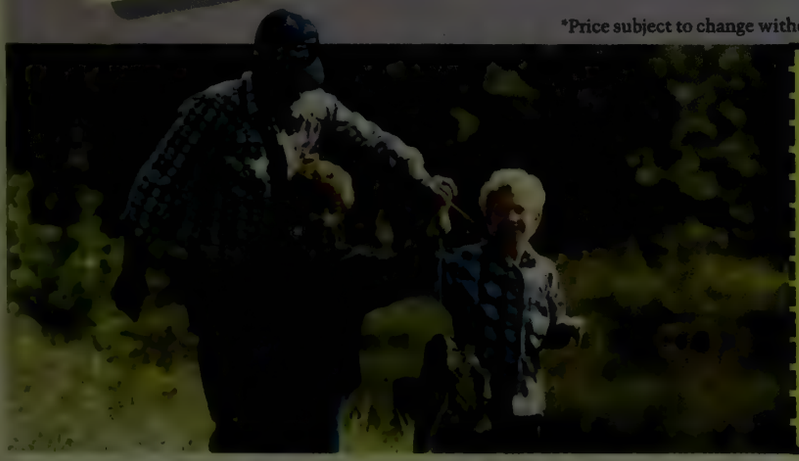

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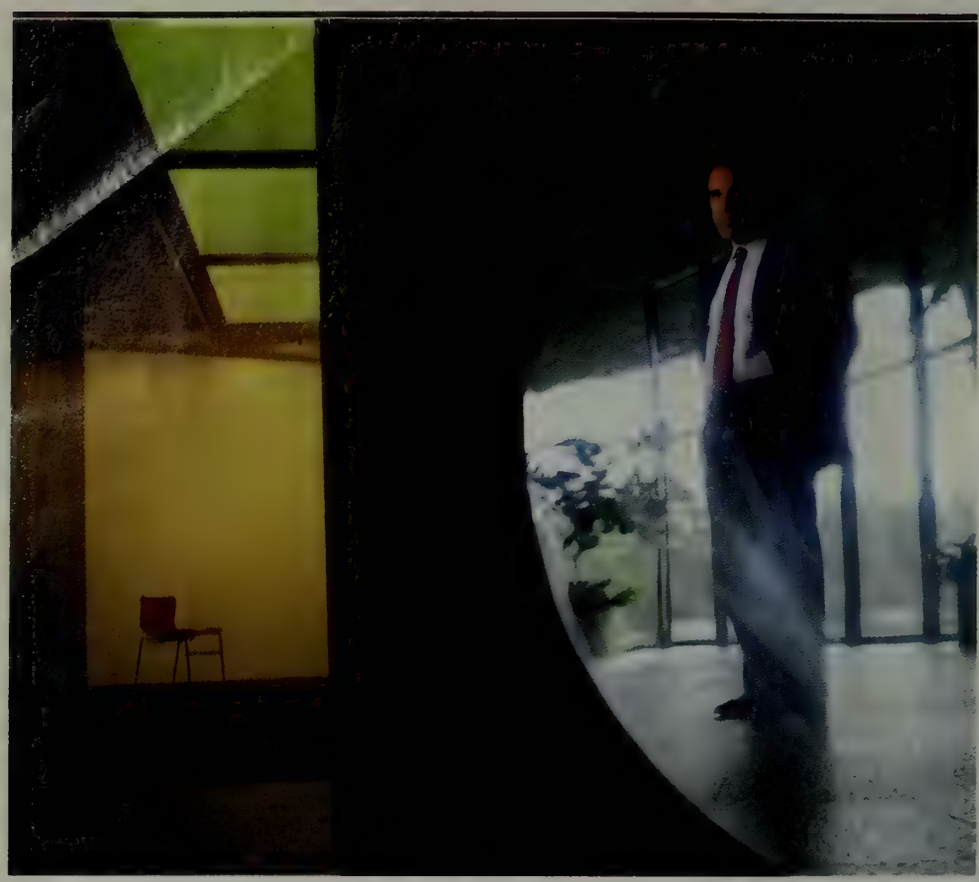

Pam Francis

Bruce Wilkinson, CRSS chairman
Betting on acid rain.

David Sculley, Weight Watchers manager
Can he recover $100 million in sales?

a $472 million (sales) Houston-based constuction company. CRSS has done some big fancy projects—it built the AWACS and F-15 facilities the Air Force used in Saudi Arabia during the Gulf war. But Wilkinson is gambling on public policy work to even out the construction cycles.

His first effort has been a success. When federal law allowed independent power generators to compete with utilities, CRSS began to build and retain ownership in power plants. Its investment in five plants producing 520 megawatts of electricity will be profitable on a pretax basis for the first time this year. Wilkinson wants to double his $380 million investment by the year 2000.

Other areas look promising. Wilkinson gave up trying to build a private high-speed rail link in Florida. "We learned a lot," he says. But he thinks a 10-mile private toll road in California might be ready for financing this summer.

Then there's Natek, a 50%-owned mining and technology investment in reducing sulfur emissions. But when the Clean Air Act passed in 1990, it gave utilities years to decide which technology to use. So Natek may be two years away from the big orders. Says Wilkinson: "Sometimes when you're exploring the mountains you kind of wish somebody was right there ahead of you a little bit."

Business genes

AS YOUNG MEN David Sculley and his older brother used to spend weekends wandering the aisles of Long Island supermarkets, musing about product marketing. The chatter paid off. Brother John, now 52, went on to head marketing for Pepsi and today runs Apple Computer. Another brother, Arthur, 47, is a managing director of Morgan Guaranty Trust.

David, now 45, is senior vice president and a director of H.J. Heinz, where he's favored to succeed Anthony O'Reilly as chief executive—if he does well in his new assignment.

The assignment: Get Heinz's important Weight Watchers division back on track. Heinz (sales, $6.6 billion) acquired Weight Watchers in 1978, and it dominated the weight-loss business for years. But recently it has been losing some market girth. Tough competition from Slim-Fast, Stouffer Foods, ConAgra's Healthy Choice line and Jenny Craig Inc. (FORBES, *Feb. 17*) has knocked more than $100 million from Weight Watchers' annual food sales since 1989's $350 million peak. The erosion contributed to a 12% drop in fiscal second-quarter net income, Heinz's first decline since 1983.

In charge of the division since July 1991, Sculley is putting Weight Watchers on a new regimen. In addition to beefing up advertising, Weight Watchers will for the first time sell its food through the weight-loss classes that got the company going in 1964. And new frozen products—low-calorie chocolate éclairs, brownie sundaes and stir-fry dishes—are already on the shelves.

Sculley's first job after graduating from Harvard in 1968 was with Lever Brothers as a consumer products marketing trainee. Six years later he went to Heinz, where he has since managed the pickles and ketchup product lines and has run Heinz's European businesses. He returned in 1985 to headquarters in Pittsburgh.

Where did the Sculley boys get their business acumen? "My mother's father was an entrepreneur and shipbuilder in Bermuda who started the island's first perfume factory," says David Sculley. "Our business genes came from that side of the family."

–SETH LUBOVE

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ASHLAND OIL, INC. N

Ashland Reports Results for December Quarter

ASHLAND, KY., January 23, 1992—Ashland Oil, Inc. (NYSE: ASH), said today it had net income of $29 million, or 50 cents a share, for the quarter ended December 31, 1991, the first quarter of its 1992 fiscal year. Ashland had a net loss of $11 million, or 19 cents a share, in the quarter last year.

Operating income for the quarter just ended was $59 million, compared to $9 million a year ago. Sales and operating revenues were $2.5 billion for the most recent quarter and $2.8 billion in the year-earlier quarter.

"We were pleased by record December-quarter results from Valvoline and Ashland Coal, Inc., as well as excellent results from Ashland Chemical and Ashland Exploration," said Ashland Chairman and Chief Executive Officer John R. Hall.

"Unfortunately, refinery margins declined sharply in December as petroleum product prices fell faster than crude oil costs," Hall continued. "Soft demand and market fears of a growing crude oil surplus should Iraq succeed in re-entering the market led to an industrywide product sell-off, and wholesale product prices plunged. This resulted in a $4 million operating loss for Ashland Petroleum Company.

"Operating income from SuperAmerica declined to $12 million, as retailers battled for market share in the face of soft gasoline demand," he added. "December's heavy flooding in Texas and bad weather in several other operating areas marred on otherwise strong quarter from our APAC construction operations, and operating income declined to $18 million."

Valvoline, Ashland's motor oil and automotive chemical marketing subsidiary, benefited from higher branded motor oil volumes and some improvement in margins. Operating income increased substantially to $13 million.

Operating income from Ashland Chemical bucked the industry trend, increasing 35 percent to $29 million, including $7 million from the sale of certain technology. Excluding these proceeds, results slightly exceeded last year's quarter, reflecting improvements in specialty chemicals and distribution businesses.

With operating income of $15 million, a 17 percent increase, Ashland Exploration had its best December quarter in 10 years. Domestic natural gas production was up 33 percent compared to a year ago and reached nearly 88 million cubic feet per day in December. The increased production made up for weak natural gas prices. Crude oil trading gains led to higher operating income from international operations, more than offsetting normal production declines in Nigeria and lower crude oil prices.

Results from coal operations were mixed. Equity income from 46-percent-owned Ashland Coal more than doubled to $6 million, reflecting a shift from domestic spot coal sales to domestic contract sales, as well as a decrease in the average cost of sales. However, equity income from Arch Mineral Corporation declined to $2 million, reflecting lower spot coal prices and higher operating expenses.

"In summary, several of our non-refining businesses did extremely well and exhibited resiliency in their ability to withstand poor economic and market conditions," Hall said. "Results from our refining operations were disappointing but not surprising in view of soft demand and crude oil and product oversupply. Unless market conditions improve, the second quarter may pro e to be difficult for our petroleum refining operations.

"Looking ahead, crude oil prices are expected to remain depressed and could decline further as Kuwait increases exports and Iraq attempts to re-enter the market," he added. "In addition, U.S. refiners have begun to limit refinery runs and to undertake normal maintenance turnarounds which also should reduce production temporarily. As a result of these factors, refinery margins should improve in the spring when U.S. gasoline demand begins its seasonal upturn."

Ashland Oil, Inc. is a diversified energy corporation engaged in petroleum refining, transportation, and marketing; retail gasoline marketing; motor oil marketing; chemicals; coal; highway construction; and oil and gas exploration and production.

ASHLAND OIL, INC.

(In thousands except per share data—unaudited)	Three months ended December 31 1991	1990
REVENUES		
Sales and operating revenues (including excise taxes)	$2,509,786	$2,588,362
Sales and operating revenues (excluding excise taxes)	2,342,828	2,454,319
Total revenues (including excise taxes)	2,528,290	2,597,085
RESULTS OF OPERATIONS		
Operating income	$ 59,283	$ 8,757
Interest expenses—net	(29,993)	(31,439)
Equity income	10,390	8,056
Income taxes	(10,200)	3,860
Net income	$ 29,480	$ (10,766)
EARNINGS PER SHARE		
Primary	$ .50	$ (.19)
Assuming full dilution	$ .49	$ (.19)
AVERAGE COMMON SHARES AND EQUIVALENTS OUTSTANDING	58,282	55,587

(In thousands—unaudited)	Three months ended December 31 1991	1990
SALES AND OPERATING REVENUES		
Ashland Petroleum	$1,224,552	$1,273,678
SuperAmerica group	523,275	593,738
Valvoline	196,442	167,745
Chemical	556,897	576,807
Construction	280,169	295,933
Exploration	71,612	116,364
Intersegment sales	(343,161)	(435,903)
	$2,509,786	$2,588,362
OPERATING INCOME		
Ashland Petroleum	$ (4,074)	$ (43,047)
SuperAmerica Group	11,680	17,095
Valvoline	13,138	1,178
Chemical	28,806	21,320
Construction	16,192	18,490
Exploration	14,719	12,624
General corporate expenses	(21,178)	(18,903)
	$ 59,283	$ 8,757
EQUITY INCOME		
Arch Mineral Corporation	$ 1,922	$ 5,065
Ashland Coal, Inc.	5,654	2,258
Other	2,814	733
	$ 10,390	$ 8,056

(Contact: William P. Hartl, Ashland Oil, Inc., 535 Madison Ave., New York, NY 10022. Phone (212) 421-1250.)

AMETEK, INC. N

AMETEK EARNINGS UP 26 PERCENT IN FOURTH QUARTER

Company Expects Momentum to Continue in 1992.

Paoli, PA, February 5, 1992—AMETEK, Inc. (nyse-AME) today reported that it achieved record fourth quarter earnings of 24 cents per share, a 26 percent increase over the 19 cents per share earned by the diversified industrial manufacturer in the final quarter of 1990. Net income in the quarter ended December 31, 1991 totalled $10.4 million on record sales of $183.4 million. In the last quarter of 1990 the company earned $8.3 million on sales of $169.1 million.

For the full year of 1991 AMETEK's sales were up more than eight percent to a record $715.1 million, on which the company earned $38 million or 87 cents per share, a slight gain over the $37.3 million or 85 cents per share earned in 1990 on sales of $660.7 million.

Income from operations improved during the fo quarter, topping $18 million in the period, 18 percent ah of AMETEK's $15.3 million operating income in the fo quarter of 1990. This better operating performance, cou with a lower effective tax rate for all of 1991, resulted better bottom line than the previous year despite recession. The lower tax rate, mainly an effect of consolidation of some of AMETEK's European operations, 28 percent compared to the 34 percent effective tax rat the previous year.

"AMETEK is building earnings momentum," comp president and chief executive officer Walter E. Blankley s "Our performance in the second half of 1991 is a real t around compared to the first six months of the year w earnings trailed the prior year's totals by more than percent. While in the first half the recession impeded man our businesses, especially those supplying instrume plastics and other industrial materials, demand begar build in the second and third quarters, especially for elec motors used in appliances, business machines and hi efficiency heating systems. That demand continued to g in the last quarter, along with a moderate increase in Industrial Materials group of plastics and metal powd producers.

"We are also experiencing improving demand in Precision Instruments group for heavy truck instrum panels and gas and emissions analysis instruments, wh has helped to counter the negative effect of the airli diminished requirements for spare and replacement airc instruments," Mr. Blankley reported.

"AMETEK entered 1992 in a strong position. At year- our backlog of orders, which declined early in the y recovered to $275.4 million, within two percent of previous year's record totals. The company continued increase the cash generated by its operations for the f consecutive year, with 1991 cash flow improving about ei percent to $77 million, up from $71.6 million in the previ year.

" I think things are starting to fall into place for AMETE Mr. Blankley concluded. "We've achieved some compa wide internal impovements—enhanced productivity, duced inventories—for improved quality, efficiency ultimately, profit margins, and we're definitely gain market share with advanced designs in electric mot instruments, and drinking water filters, throughout global markets we supply. We expect that AMETEK's mom tum will continue throughout 1992."

During 1991 AMETEK increased its annual dividend r from 64 cents per share to 68 cents, marking the 4 consecutive year in which the company has increased t cash payments to its stockholders, a record unmatcl among New York Stock Exchange-listed industrial manuf turers.

	Three months ended December 1991	1990
Sales	$183,350,000	$169,053,00
Net income	10,416,000	8,266,00
Earnings per shares	.24	1
Dividends per share	.17	1
Average shares outstanding	43,954,661	43,743,55

	Twelve months ended December 1991	1990
Sales	$715,099,000	$660,745,00
Net income	37,966,000	37,338,00
Earnings per shares	.87	[illegible]
Dividends per share	.66	[illegible]
Average shares outstanding	43,887,631	[illegible]

(Contact: Darrah Ribble, AMETEK, Inc., Station Square T Paoli, PA. 19301. Phone (215) 647-2121)

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THE FORBES/BARRA WALL STREET REVIEW

BY GILBERT STEEDLEY

If Fed Chairman Alan Greenspan starts cutting interest rates again, expect some more excitement in the auto stocks. Investors think that lower interest rates and a recovering economy will especially help Detroit's automakers. Auto analyst Arvid Jouppi, of Arvid Jouppi & Associates in Canton, Mich., thinks that the auto industry is well positioned for a cyclical rebound. "Their difficult cost-cutting programs will make a difference," claims Jouppi. Barra, Inc.'s factor for motor vehicle manufacturing had a 9.4% gain in the last two weeks and is up 16% since the start of the year. More may be in store: On Feb. 4 Greenspan stated that additional rate cuts were possible, driving the Dow industrials, the Nasdaq and the Amex to new highs.

The Barra All-US index finished with a slight gain for the two weeks ending Feb. 6, but it is still off from its mid-January peak.

Special focus

One area where Japan has lagged the U.S. and the rest of the world recently is in stock market performance. For the three months ended in January, the Morgan Stanley index for Japanese stocks had a –8.6% return (including dividends and measured in U.S. dollars) versus a 4.9% return for the U.S. Hong Kong's market led, up nearly 17%.

International scorecard

Country	3-month total return	Country	3-month total return
Hong Kong	16.6%	[illegible]	2.5%
Austria	14.3	Finland	2.5
Italy	12.6	UK	2.1
Belgium	12.1	Spain	0.2
Singapore	11.9	Sweden	–0.3
Germany	9.7	Canada	–0.9
Netherlands	7.7	Norway	–1.7
Switzerland	7.7	New Zealand	–4.0
France	6.3	Australia	–7.5
United States	4.9	Japan	–8.6

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	0.3%	21.1%	–1.6%
Sharpe/Barra Growth index[1]	–0.1	24.7	–3.5
Sharpe/Barra Value index[2]	–0.1	14.3	–2.0
Dow Jones industrials	0.9	15.8	–0.5
S&P 500	–0.3	16.1	–1.7
NYSE	0.0	17.6	–1.3
Nasdaq	2.4	46.6	0.0
Amex	0.5	24.4	0.0
EAFE[3]	0.4	–0.5	–19.0
CRB index[4,5]	1.0	0.2	–21.7
Gold[5]	0.1	–3.3	–29.3
Yen[5]	1.4	–2.3	–23.4
Oil[5]	4.3	–8.0	–52.6

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Kentucky Central Life Ins	9 5/8	54%	$ 1.40	US Bioscience	17 1/2	–47%	$–0.16
Owens-Corning	36 5/8	47	1.95	Autodesk	26 1/4	–26	2.82
Imperial Bancorp	14	43	1.15	Pacific Enterprises	18 3/4	–25	2.16
Score Board	39 1/4	39	1.82	Acuson	23 1/2	–24	1.83
Grenada Sunburst Sys	20 1/4	38	1.65	Interlake	6 7/8	–21	0.15

The best and worst performing industry factors[6,8]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Motor vehicles	9.4%	16.5%	Oilfield service	–10.1%	–16.0%
Beverages	6.5	3.2	Coal & uranium	–6.9	–7.4
Tobacco	5.5	5.8	Life insurance	–6.5	–9.8
Construction	5.1	11.7	Aluminum	–6.4	–8.6
Forest products	3.9	19.9	Misc mining, metals	–6.1	–3.1

Note: Data for period ending 2/6/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. Principal source: Barra, Inc., Berkeley, Calif.

BY WARREN MIDGETT

The biggest new issues[1]

Company/business	Exchange	Offer date	Offer price	Recent price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Owens-Illinois/glass, plastics	n	12/11/91	11	12	528	Morgan Stanley	9%	99
HealthTrust/hospitals	n	12/12/91	14	15¼	511	Merrill Lynch	5	100
Health Care & Retirement/nursing homes	n	10/17/91	17	22⅛	263	Merrill Lynch	30	122
Horace Mann Educators/insurance	n	11/14/91	18	22¼	214	First Boston	24	118
ShopKo Stores/discount variety stores	n	10/8/91	15	12⅞	198	Goldman, Sachs	–14	78
York International/refrigeration equip	n	10/1/91	23	25⅞	184	First Boston	13	105
Stop & Shop/supermarkets	n	11/22/91	12½	13⅞	170	Merrill Lynch	11	100
Gaylord Entertainment/cable, broadcasting	n	10/24/91	20½	29½	157	First Boston	44	133
Bell Bancorp/savings & loan	o	11/12/91	25	29¾	156	Adams, Cohen	19	112
RP Scherer/mfg gelatin capsules	n	10/11/91	18	30¾	140	Lehman Brothers	71	156

Performance update

The market for initial public offerings is hotter than a summer day in Phoenix. In 1991, 366 new issues raised $16.5 billion in capital. Though not quite a record, it was the biggest year since 1987, when 519 issues generated $17.1 billion. The fourth quarter of 1991, in which $6.2 billion in capital was raised, was $1.3 billion shy of the record-setting fourth quarter of 1986.

The hottest industry in 1991? Biotech, which accounted for 51 issues and slightly over $1.4 billion raised. The biggest biotech offering of 1991 was Haemonetics, which raised $106 million. A number of these stocks, already expensive (in relation to book value) when they came out, have since doubled or more than doubled. Examples include Aphton, Medirex and Applied Immune Sciences.

This year is also off to a strong start. As of early February, 46 companies had gone public, raising $2.3 billion. According to Newark, N.J.-based Securities Data Co., another 122 issues are already in registration; their offerings have a potential value of $5.8 billion.

"Interest rate cuts have no doubt accelerated the pace in the IPO market, but another key factor has been the deleveraging of the 1980s," says Joe Miller, a Securities Data analyst.

The best new issues[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Mitek Surgical Prods/surgical implants	16	14	Hambrecht & Quist	109%	193
Broderbund Software/software	11	36	Alex Brown & Sons	109	188
Alteon/pharmaceuticals	15	45	Alex Brown & Sons	100	188
Intervisual Books/publishing	3	5	Chatfield Dean	96	178
Perrigo/pharmaceuticals	16	128	Morgan Stanley	86	171

The worst new issues[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Salton/Maxim/appliances	12	28	Dean Witter	–54%	41
Koo Koo Roo/restaurants	5	6	Whale Securities	–45	52
Veterinary Ctrs of Amer/animal hospitals	6	14	Rosenkrantz, Lyon	–35	59
Dateq Info Network/information svcs	10	8	Chicago Corp	–35	61
Sunbelt Nursery Grp/lawn & garden prods	8½	27	Smith Barney	–32	62

The most active investment bankers[3]

Underwriter	Total offerings	Total raised ($mil)
Goldman, Sachs	20	$2,686
Merrill Lynch	16	2,327
First Boston	19	1,655
Morgan Stanley	12	1,114
Alex Brown & Sons	20	728

Industries going public[3]

Industry	Total offerings	Total raised ($mil)
Manufacturing	40	$2,371
Health care	10	1,000
Business svcs	27	637
Retail	7	545
Insurance	4	334

Note: Initial public offerings of common equities with offer date of 10/1/91 to 12/31/91, offering price of $2.50 or more and offering value of $5 million or more. Closed-end funds, limited partnerships, and ADRs (American Depositary Receipts) of corporations already traded in foreign countries are excluded, as are REITs and spinoffs. [1]Last quarter. [2]The ending value of $100 invested in the stock, divided by the ending value of $1 invested in the market. [3]Latest 12 months. Source: Securities Data Co.

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Kenneth Heebner has earned extraordinary returns anticipating the stampedes of big institutional investors.

Dancing with the herd

When Kenneth Heebner began managing money at Scudder, Stevens & Clark, in 1973, he clashed with the company's chief executive. His boss believed in the efficient market theory: All stock prices represent all available information, so it is impossible to beat the stock market. But Heebner believed in market inefficiencies, and didn't want to buy from Scudder's preapproved list of stocks. So he left Scudder and joined Loomis, Sayles, where he began managing the CGM Capital Development Fund in 1976 and CGM Mutual Fund in 1981.

Anyone who doubted Heebner's abilities should take a look now. Capital Development's 25% and Mutual's 18% compound annual returns over the past ten years look good next to the S&P 500's 17.5%. Last year Capital Development climbed 99%; Mutual rose 41%.

In November 1986 Heebner closed Capital Development to new investors. But his CGM Mutual, a $411 million (net assets) no-load balanced fund, is available.

Heebner, now 51, manages the two funds somewhat differently. CGM Mutual buys larger-capitalization stocks than Capital Development does and always has 25% to 50% of its assets in bonds. At the end of January 42% of its portfolio was in long-term U.S. Treasury bonds. The mix of Heebner's stock picking skill and the bond position has made CGM Mutual the best-performing balanced fund over the past ten years.

Heebner is a momentum investor. He tries to spot a rising stock early, jumps on board and hopes Wall Street and the institutional buyers will follow, propelling the stock higher. In early, out early: Heebner is usually out of the stock six months after he buys it. The turnover of the CGM Capital Development Fund was 272% last year, more than double the stock fund average.

Every year one of Heebner's institutional clients chides him for his high turnover and lets Heebner know what his performance would have been had he held his Jan. 1 portfolio throughout the year. "If that client could find a money manager who could pick stocks like I do and just hang on to them, he would hire him," laughs Heebner. But few buy-and-hold managers have Heebner's ability to spot momentum.

Sometimes the momentum carries on after Heebner gets out. The Capital Development portfolio started out 1991 with Philip Morris, U.S. Surgical and Merry-Go-Round Enterprises as its largest positions and ended with Philip Morris, Countrywide Credit Industries and Teléfonos de Mexico. Had Heebner stayed put with his starting portfolio, the year's return would have been 107%.

Heebner looks for stocks that are climbing faster than their one-year moving average of prices suggests they should. After identifying the candidates, he does more research. He isn't interested in takeovers and turnarounds. What he wants is a healthy company with above-average earnings growth that is going to benefit from some trend or imminent event.

Take Syntex Corp., for example. The company has developed two new drugs: an oral version of Toradol, a painkiller; and Ticlid, an antistroke medication. Heebner believes that these two drugs could double Syntex's sales and that other investors aren't wise to this development. They will catch on, he argues, when Syntex

Betsy Bassett

Kenneth Heebner of Capital Growth Management
Early in, early out.

reports better than expected earnings. That is when Heebner would make for the door.

Heebner likes big bets. The CGM Mutual balanced fund held only 11 stocks at its last public accounting. Thus, when he beats Wall Street to the next winner—as he did with medical staple maker U.S. Surgical, mortgage banker Countrywide Credit and catheter manufacturer SciMed Life Systems—Heebner's funds get a big bang. "Most of my performance comes from very few stocks," admits Heebner.

When things don't unfold the way he expects, Heebner is quick to sell. He recently sold Storage Technology, a maker of computer disk memories, when it announced a delay in the introduction of a new product. Heebner believes short-term delays generally become long-term delays. Storage Technology is still climbing, but that doesn't bother Heebner much. "Perhaps I sold too soon," he shrugs.

These days Heebner is cautious about the short-term outlook for most stocks. "I don't think you are going to make a lot of money in them in 1992," he says. By his estimates, many growth stocks, with earnings growth rates of about twice the market average, are now selling at three times the market's average price/earnings multiple. So Heebner has recently bought large-capitalization growth stocks such as Merck, Pfizer and Gillette, which sell at only 1½ times the market's average P/E. "Investors," he predicts, "are going to get out of Home Depot and Amgen and move into Merck and Pfizer."

Individual investors can also access Heebner's prowess by paying a sales charge to get into the $980 million (net assets) New England Growth Fund, another stock fund he manages. But these days Heebner is concerned that the large size of the fund will reduce its performance potential.

But if you, like Heebner, think the stock market is going to take a rest for a while, then CGM Mutual with its large Treasury bond position may be a reasonable compromise. "I am counting on very big gains in my 30-year Treasurys," Heebner says, "to offset any problems in the stock market." –S.O. ■

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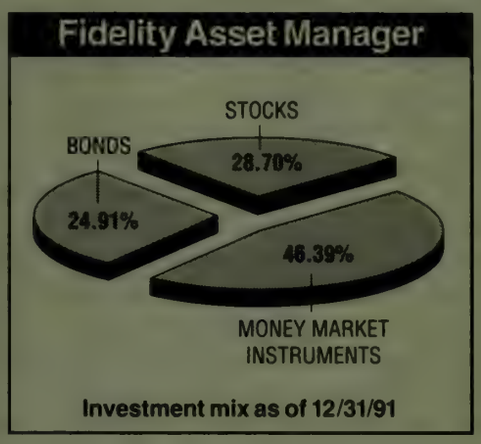

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The smart technology fund managers got out of computer hardware and into more congenial technologies. Daniel Leonard is one of them.

Technotiming

By Toddi Gutner

As PERSONAL COMPUTERS proliferated in the 1980s, investors moved into technology funds in search of the next Compaq. But cloners soon eliminated much of the profitability from the business, and investors departed. The Fidelity Select Technology Fund, for instance, shrank from $720 million in 1983 to $71 million in 1989.

But the technology funds haven't disappeared. Many have remade themselves by buying fewer computer hardware companies and more software, health care and even retailing technology stocks.

Daniel Leonard is one technology fund manager who has broadened his scope. The 55-year-old manager of Invesco's $167 million Financial Strategic Portfolio-Technology fund, a no-load, has stretched his definition of technology to include companies such as Symbol Technologies and National Computer Systems, makers of hand-held bar-code and optical scanners, respectively. Leonard's strategy has given his shareholders a 17.7% average annual compound return over the past five years, ahead of all other technology funds and the S&P 500's 15.3% annual return.

Leonard screens databases for companies with market capitalizations of $50 million to $500 million that have had sales and earnings growth of 20% or better for at least one quarter. "The small-cap stocks are where emerging growth is and where you make the most money," says Leonard.

With small-capitalization growth stocks in vogue, Leonard's fund posted a 77% return last year. As a result, it has been flooded with new money that has helped triple its size since the end of September. The flood, if it keeps up, could seriously dilute Leonard's effectiveness. Since the beginning of the year he's been around 10% in cash. His average position is now $2.5 million, in companies with market values averaging $500 million.

After compiling lists of candidates with growing sales and earnings, Leonard selects companies that have introduced or are about to introduce promising new products. To cushion any disappointment from the new product, Leonard looks for strong sales from at least one and preferably two established products.

Example: Symbol Technologies. As the leading supplier of hand-held bar-coding equipment, it has retail stores among its customers. It also makes scanners for airlines, which have begun bar-coding luggage, and for medical laboratories, which bar-code test tubes. At a recent 22⅞, the stock is at 25 times trailing earnings. Leonard expects earnings for the $310 million (sales) company to rise 44% for calendar year 1992.

Sensormatic Electronics, another Leonard holding, makes the electronic clips retailers put on clothes to stop thieves. The company has brought out a washable magnetic tag that is sewn into health club towels, one of the most frequently stolen items in the country. Sensormatic also sells, for $4,000 a pop, hardware to detect the magnetic pieces.

Leonard generally shuns computer makers, but he does buy software companies. He owns London-based Micro Focus Group and Chicago-based Technology Solutions, which designs and implements programs to efficiently integrate computer systems. A longtime holding is $415 million (sales) Policy Management Systems, a software supplier to property and casualty insurers.

One of Leonard's biggest winners has been International Game Technology, a manufacturer of slot machines and video lottery terminals *(see p. 78)*. Leonard first purchased the stock at a split-adjusted 2½ six years ago, when sales were $42 million. Now revenues are $237 million, the stock trades at 56¼, or 46 times trailing earnings, and Leonard has begun to reduce his position. He has also pared down his holdings in other hot stocks like Amgen and Microsoft.

Expecting an economic rebound, Leonard has recently purchased positions in three semiconductor companies: National Semiconductor, Intel and Vitesse Semiconductor, a newly public manufacturer of integrated circuits. Rather than fall victim to economic cycles and technological innovation, Financial Strategic Portfolio-Technology fund is trying to take advantage of them.

Technical recovery

Fund	Manager (years)	5-year return (annualized)	Maximum sales charge	Annual expenses per $100
Financial Strategic Portfolio-Technology	Daniel Leonard (7)	17.7%	none	$1.19
Fidelity Select Telecommunications	Abigail Johnson*	16.7	3.00%	1.98
Seligman Communications & Information	Paul Wick (2)	16.6	4.75	1.69
United Science & Energy	Abel Garcia (8)	16.0	8.50	0.93
Franklin DynaTech	Rupert Johnson (24) Lisa Costa (4)	13.8	4.00	0.79
T. Rowe Price Science & Technology	Charles Morris*	NA	none	1.50

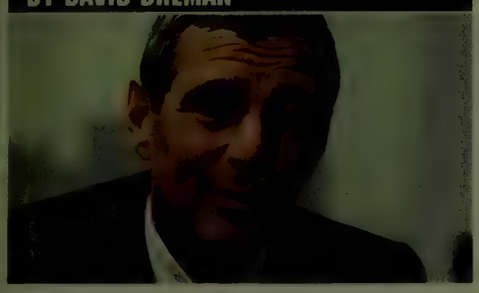
Returns as of Jan. 31. *Manager less than one year. NA: Not applicable.

After a shaky start in the 1980s, technology funds have delivered respectable gains. These are the strongest performers since 1987.

Knowing when to sell is as important as knowing what to buy. With the DJI at 3200, it's not a bad idea to think about pruning your losers.

Getting out

BY DAVID DREMAN



David Dreman is chairman of Dreman Value Management, L.P., Investment Counsel, New York, and author of *The New Contrarian Investment Strategy.*

THE PAST ten years have been a hog heaven for investors, with the S&P 500 up over fivefold and many individual issues up much more. The tough question for anyone with big gains is when to sell. No one likes the humiliation of taking profits after a large runup only to see a stock double, triple or quadruple afterward. Even worse is not to sell a stock that moved up sharply, then watch it drop back to a fraction of what you paid.

To avoid these hurdles—the one psychological, the other financial—you must adopt a well thought out sell strategy. It won't always work—no strategy does. But remember, investing is a probability game, and a good strategy should give you more than your share of wins.

My first rule is simple. When you buy a stock, decide then on a price—or a method—that tells you when to sell. If things work out and the stock reaches your target, take a deep breath and let it go. I can almost guarantee you won't catch the top, but investing is about getting a good return on your money, not about hitting bull's-eyes.

If you are a buyer of low-P/E stocks, the decision is relatively easy. Sell the stock when it reaches the market multiple and replace it with another low-P/E issue. (The exception is when the multiple is raised by a one-time charge or a recession-related earnings drop.)

Selling doesn't only mean picking a predetermined target price. Even if a stock has risen sharply, it may not be a sell because earnings have moved up rapidly, keeping the P/E multiple low. Two good examples are *Philip Morris* and *Royal Dutch,* top performers on the NYSE over time (both recommended in this column a number of times). In the last decade MO was up 19 times and RD 9 times (including dividends). In spite of the enormous moves, as well as consistently larger dividends, they traded at low P/Es for years because rapid earnings growth kept their multiples down.

A second important rule involves the time factor. Don't wait forever for a stock to work out. I generally wait 2½ to 3 years and then sell. Other value managers use somewhat longer or shorter periods. But few wait for a miracle to bail them out. It's much smarter to prune laggard stocks from your portfolio and channel the funds into better opportunities.

Another important guideline: Let a stock go if fundamentals deteriorate badly. I don't mean one disappointing quarter or a temporary surprise from which a company will bounce back. Rather, a major decline in the stock's fundamentals that changes its outlook dramatically. New factors that cannot be anticipated and that impact the future negatively can develop, no matter how good the research.

Westinghouse (18), for example. Here is a stock recommended in this column since 1984. It returned over fourfold to its high in 1990. But management lost it, taking enormous charges in the financial subsidiary. It also damaged its credibility by either not owning up to, or facing up to, WX's problems until it was too late. The stock might rise sharply from here, but to me the financial subsidiary is a black hole. I would take my licking and move on to another stock.

I would also sell *Chrysler, Digital Equipment* and *J.C. Penney,* which have not come up to expectations.

For those reluctant to sell losers and tired winners, call-writing is an alternative to selling. If, for example, a stock has moved up close to your target, there are times when you can sell a covered call option whose premium will throw off enough income to reach the price point. Normally, option premiums tend to increase as the stock is moving up—the faster the rise, the higher the premium. This is a relatively painless way to liquidate a stock. If it drops instead of rising, you have lowered your effective cost basis and can repeat the process again, capturing additional premium.

While the market is at a level where it is wise to think about selling, I am not recommending a total retreat to the sidelines. There are still good values around. If you prune your portfolio, here are a number of issues to consider as replacements.

Recession notwithstanding, *Boeing* (48), the leading manufacturer of commercial aircraft, had a record year in 1991. Boeing's earnings should increase over 10% in 1992, with continuing gains in the future. BA has a P/E of 10, yielding 2.2%.

Columbia Gas (17) is an interesting bankruptcy play for those with the patience to wait a year or two. Down from a 12-month high of 47, the risk of a major loss from the current level appears small.

Giant Food (25, A shares) is a well-managed supermarket chain with 152 stores primarily in the Washington, D.C. area. The company should have a smart earnings rebound in the current year (ending February 1993). The stock trades at a P/E of 13 on estimated 1992 results and yields 2.8%.

U.K.-based *Hanson Plc.* (18) appears cheap at its current price/earnings ratio of 10 on depressed 1991 results and 6.1% yield.

PHH (34) is a medium-size company that provides fleet and relocation management services to more than 2,500 corporations. Earnings should increase 5% in its 1991 fiscal year (ending Apr. 30) and 10% in 1992. The stock trades at a P/E of 12 and yields 3.5%. ■

With interest rates at their lowest since the mid-1970s, every brokerage is hawking collateralized mortgage obligations as an alternative to bonds. Buyer beware!

Get it in writing

BY MATTHEW WINKLER

Matthew Winkler is editor-in-chief of *Bloomberg Business News.*

THERE ARE all kinds of collateralized mortgage obligations, some with high cholesterol and some as healthy as any Treasury note. When your broker calls with just the CMO for you, make sure it passes the new physical required on CMOs sold to some of the biggest professional investors. This examination will show whether your CMO is a big risk.

CMOs are securities that pool mortgages and separate them into various maturities, consisting of principal and interest payments. They are as popular as they are complex. The market already totals $600 billion and is growing at a rate of $20 billion a month. Now, with interest rates at their lowest since the mid-1970s, every brokerage is hawking CMOs as an alternative to corporate and government bonds.

CMOs are sexy because their credit ratings are strong (AAA), their yields are relatively high and their interest and principal payments are supposed to be predictable. Investing in collateralized mortgage obligations seems both safe and easy—which is what aroused the regulators.

Last December the Federal Financial Institutions Examination Council created mandatory investment criteria on CMOs for deposit-taking institutions such as banks and thrifts. The regulators want to ensure that what happened to these institutions in commercial real estate in the 1980s doesn't happen to them again with CMOs in the 1990s. Determining the safety of CMOs depends on some specific assumptions regulators want to see on paper.

But nobody is writing regulations like this for so-called retail investors, so it's caveat emptor. That's why knowledge of the federal safety test for institutions is critical for anyone who buys CMOs. Any reputable bond specialist can determine whether a CMO is "safe" by measuring it against the federal criteria. If your broker can't show you on paper, consider another broker.

The regulations are designed to curb CMO investments that could gyrate in value when interest rates rise or decline. The potential for such volatility is determined using a model devised by the Public Securities Association, a trade group.

Distinguishing a safe CMO from a risky one depends on the security's average life, its average-life sensitivity and its price sensitivity—three well-known concepts to the pros in the mortgage-backed market. The average life of a mortgage or CMO is the equivalent of maturity for more traditional bonds; the average-life sensitivity measures when the investment is recouped, given a change in interest rates; the price sensitivity quantifies the change in the value of the security as interest rates change.

Here's what the council looks for:

The average period during which you receive your principal has to be fewer than ten years. If the CMO passes this test, it then must survive a 3-percentage-point change in interest rates in either direction, without gyrating more than 17% in price. In addition, a "safe" CMO can't show a significant change in its average life if rates rise or fall 3 percentage points.

Which CMOs meet these stiff federal requirements?

PACs, or planned amortization class CMOs, will let you sleep better as long as you own them. For example, Fannie Mae's Remic Series 12 Tranche C, issued in 1991, is an example of the safest CMOs, in part because you know in advance when you will get your principal back. This offering has an average life of 3.67 years and pays at least ⅝ of 1 percentage point more in yield than a corresponding three-year Treasury note.

Suppose the yield on the three-year Treasury rises to 8% from 5%. What happens to this CMO? Using the council's criteria, the safety of the Fannie Mae issue can be verified. The average life will remain 3.67 years. The price of the CMO will decline to 96.319 from 105—painful, but not a devastating loss for such a big jump in interest rates.

If rates decline 300 basis points, this CMO still passes the council's muster. The average life declines to 2.54 years (as borrowers prepay) and the price rises to 111.28. In either rate situation, the price volatility is less than 10 points.

What's a high-risk CMO?

In order to make safe CMOs, investment bankers must also create high-risk CMOs. Fannie Mae's Remic Series 12 Tranche M, also issued in 1991, came out of the same offering as our PAC specimen, and it has the same collateral. At first glance it looks no different from the Series 12C CMO. But it flunks the council's physical.

On a 300-basis-point decline in rates, this CMO's average life declines to 0.33 years from 1.65 years, and the price declines to 101.18 from 102.04. On a rise in rates of similar magnitude, the average life increases to 13.27 years and the price declines to 83.69. This CMO failed the price sensitivity and average life tests. Too risky for the typical yield-seeking investor.

Insist that your broker put his CMO recommendation in writing, using the federal criteria. Chances are if it's a dicey offering, he won't be dumb enough to put it in writing. If he won't put it in writing, don't buy it, even if the broker is your brother-in-law or best friend. ■

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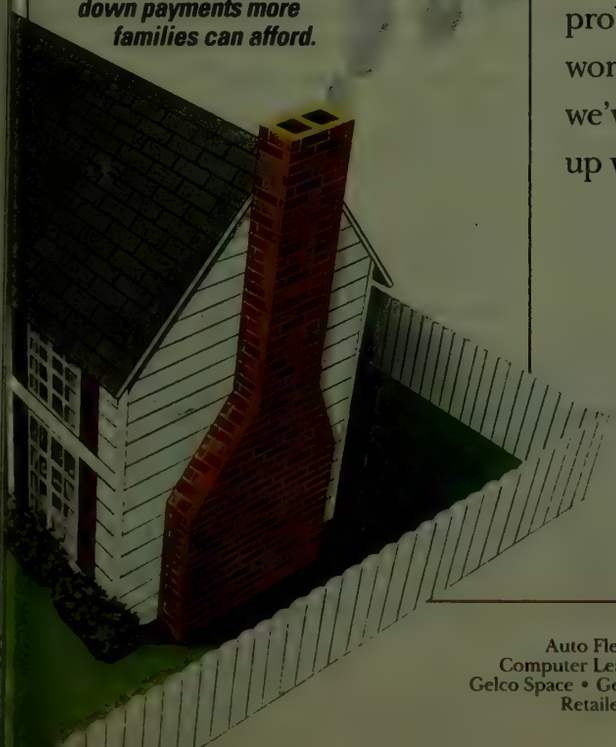

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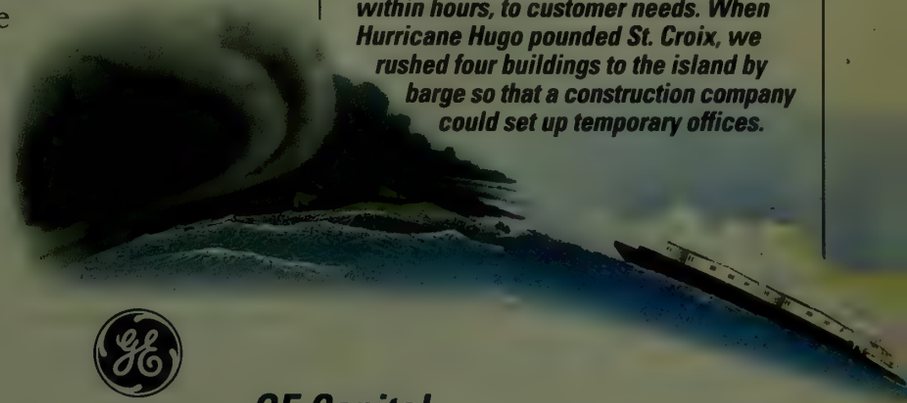

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Contrary to the experience in past recessions, interest rate cuts this time are depressing the economy, not stimulating it.

Unintended consequences

BY A. GARY SHILLING

A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and investment advisers. His firm publishes *Insight*, a monthly newsletter covering the business outlook and investment strategy.

WILL THE BIG declines in interest rates spur consumer spending? They did in past postwar recessions. In those earlier slumps, the squeeze on retirees who rely heavily on interest earnings was much more than offset by free-spending borrowers, whose cash flow rose with declining interest costs.

Furthermore, much of that new spending in past postwar recessions was on big purchases like houses and cars financed by small down payments and big loans. This boosted the economy considerably, since a 20% down payment on a house creates five times as much total spending.

But not this time. Without question, declining interest rates are putting money in borrowers' pockets. The Mortgage Bankers Association estimates that refinancing and lower rates on adjustable mortgages generated $10 billion to $12 billion of additional disposable income for homeowners in 1991, and it expects much more this year.

However, many of these homeowners are saddled with huge debts, slumping real estate holdings, low confidence and big layoffs, especially shocking to service-sector employees who expected to leave their firms with gold watches or get carried out feet first. So they are too scared to spend. Compared with earlier slumps, the revival in housing starts has been anemic and auto sales haven't yet found a bottom. In effect, borrowers are saving their interest cost reductions—and then some.

The 1973-75 and 1981-82 recessions were much deeper than the current slump to date, but borrowing is much weaker this time. Factoring in the greater size of the economy today, consumers are borrowing $70 billion less this time through mortgages, auto loans and all other debt forms than in the average of those two earlier economic declines. Had they borrowed and spent that $70 billion, their real outlays would not have declined 0.6% but would have risen 1.2%.

Borrowers are not spending but are using their windfalls from lower interest costs and lots more to reduce debts. In doing so they are acting quite rationally: If you are receiving 5% on your CDs but paying 9% on your mortgage, why not increase your return by paying down the mortgage? This is the reverse of the previous postwar recession pattern because now crushing debt loads are enhancing the appeal of rationality.

All this saving and cutting oversize debts is very beneficial to the nation in the long run; it will eventually set the stage for a revival in consumer spending. But it is a big negative for the economy in the short term.

Furthermore, the extremely sharp drop in interest income is adding to the downward pressure on spending. And individuals receive more interest than they pay—in 1989, the latest IRS data, they got $255 billion, or 36% more than the $188 billion they shelled out. True, the spending of high-income people isn't affected much: Other income is cushioning their lower interest receipts, and their stocks and bonds have appreciated sharply as interest rates have fallen. But the poorer retirees are pinched and are cutting back on spending. People over 65 living on incomes under $15,000 get over 40% of their total from interest receipts.

Since the recession began in July 1990, the fall in interest rates has sliced over $150 billion from consumer incomes at annual rates, and at least $20 billion of this has been lost by low-income retirees. Those folks tend to spend every dime they get. They realize they won't live forever, and few have figured out ways to take it with them. So their cut in interest income translates into almost a 1% decline in total consumer spending.

The bottom line? Interest rate declines are actually depressing consumer expenditures.

In short, we are witnessing a situation that is the complete opposite of the experience in past postwar recessions. But then this is a balance-sheet, debt-driven recession, unlike any seen since the 1930s.

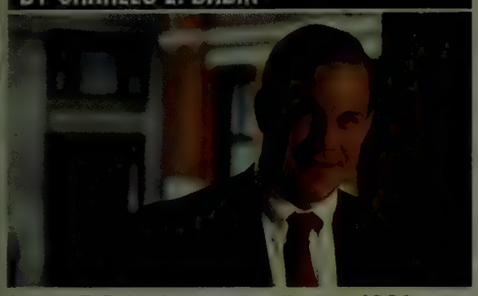
Will things improve later on in 1992? Probably not. Consumers' debt has expanded 41% more than their incomes since the 1981-82 recession, and it will take years of spending restraint to whittle that burden down to size. Even the stock market euphoria since the Fed cut the discount rate last Dec. 20 hasn't helped. A new *Wall Street Journal*/NBC consumer poll shows that 23% of respondents believe their personal finances are hurt by lower interest rates, but only 19% think they have been helped.

Don't get sucked in by stories of a lower interest rate inspired takeoff in consumer spending and big pent-up demand. The nation's housing stock is more than adequate for debt-wary consumers. Because of big auto buying in the lush late 1980s, the age of the auto fleet is way below trend. Lower interest rates are improving consumer balance sheets, but at the expense of current spending. ■

It only looks like President Bush is in trouble. By election time the economy should be purring along, good news for equity investors.

Rhetoric versus reality

BY CHARLES E. BABIN



Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm in Boston.

THOUGH you wouldn't guess it from the campaign rhetoric and media-controlled opinion polls, most thinking adults realize that George Bush isn't solely responsible for the nation's economic ills. But, if he must be blamed, fairness demands a look at the plus side, too. Indeed, I think a lot of voters will give him credit for making some astute moves that will get the economy going and keep the stock market moving up.

Chief among these is a sizable cut in the price of credit. As measured by three-month Treasury bills, interest rates nose-dived nearly 60% during the initial three years of the Bush presidency. Not unexpectedly, the stock market climbed over this same period, with the S&P 500 appreciating some 56%, despite considerable bearish sentiment and recession at home. So, believe it or not, there are winners out there and more are likely by election day.

As Yale economist Irving Fisher observed at the turn of the century, "The truth is that the rate of interest . . . is the link which binds man to the future. . . ." Fisher postulated that interest rates are forward-looking and, in part, reflect the market's expectation of inflation.

As I reported in my Feb. 18, 1991 column, standard regression techniques have since confirmed Fisher's theorems. And 1991 was a case in point. The interest rate model correctly anticipated that consumer prices would increase by less than 5% on a calendar-year average basis.

Applying Fisher's concepts to the present situation, the tremendous fall in interest rates implies that we will enjoy an economic recovery with tolerable inflation. The table updates the matrix presented in my year-earlier column. As indicated, under any reasonable 1992 interest rate assumption, the odds favor a moderate increase in the Consumer Price Index. In fact, should T bill yields average 4% this year, there's a 64% chance that the year-over-year change in the CPI will be less than 3%. If so, the President probably deserves as much credit as anyone for taming what many of his predecessors regarded as "Public Enemy No. One"—insidious inflation.

The latest media polls—and recent cover stories in *Business Week* and *Fortune*—suggest that Bush is in trouble for the way he is handling the economy. Take such indicators with a big helping of salt. Presidential candidate Bush may well find himself in the catbird seat by November.

If history is a guide, the final link in the interest rate chain implies economic recovery. During the past decade, a period marked by extreme volatility, better than 80% of the annual fluctuation in real GDP can be explained by interest rate movements alone. While the impending recovery may be less robust than previous bust-to-boom cycles, today's credit market behavior suggests that 1992's real GDP growth will comfortably exceed 3%, far better than the paltry 1.6% performance forecast by the majority of economists.

If I am right, what lies ahead is lower inflation and rising earnings—the stuff that feeds bull markets. What's more, the stock market's sensitivity to interest rate movements is evident at the industry level. Based on this relationship, the appreciation prospects of the various S&P 500 companies may be evaluated. Some of the most attractive stocks within the Composite are: *Boeing* (48), *Brunswick* (16), *Hewlett-Packard* (62), *Motorola* (80) and *Whirlpool* (40).

While many of these issues have jumped 10% or more since Jan. 1, given their potential, I would establish an initial position, keep some powder dry and capitalize on any weakness.

Inflation forecast update

Calendar-year average three-month Treasury bill yield			1992 Inflation*
4.0%	4.5%	5.0%	
probabilities			below
99%	99%	97%	6%
97	95	88	5
87	80	66	4
64	53	36	3

*Consumer Price Index, year-over-year change.

Interest rate movements historically have functioned as a reliable inflation barometer. The matrix above summarizes the likely inflation outcomes conditioned on alternative Treasury bill rates. Example: If this year's T bill yield averages 4%, there is a 64% chance that 1992's inflation will fall below 3%.

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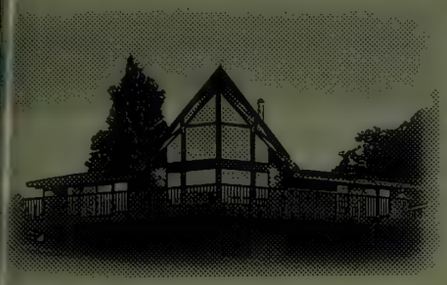

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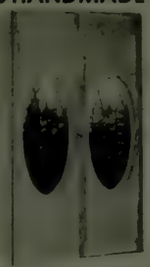

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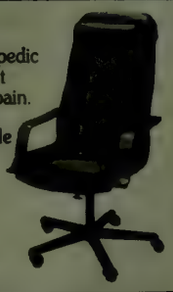

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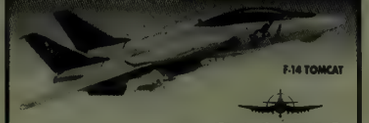

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Fisher redux

ONE RECENT public offering that has caught on like wildfire is Fisher Scientific International Inc. Sound familiar? That's probably because Fisher's controlling shareholder, the conglomerate Henley Group, sold 20% of Fisher to the public in April 1987, then bought it back in August 1989.

In December Henley tried again, selling 7 million shares of Pittsburgh-based Fisher to the public at $14.50 per share. (Fisher itself sold another 1.5 million shares.) This time the company is off to a rousing start. The NYSE-listed stock has moved up over 70%, to a recent 25. Now, Henley plans to sell the remaining 6.5 million shares, or 43%, of Fisher that it still owns. (Fisher currently has 15 million outstanding shares; the number of shares will remain the same after the sale.) Henley hopes to complete this secondary offering by midyear.

Scott Greiper, who manages the *Spinoff Report,* a monthly research report published in New York, thinks Fisher will continue to climb, though not at the same rate. The $758 million (sales) company supplies over 90,000 scientific, educational, medical and governmental laboratories with some 100,000 products. Greiper notes that in the second half of the 1980s Fisher lost market share and was marked by management turmoil. But those problems seem to be behind it. Warehouses have been consolidated or relocated, inventory liquidated and personnel slashed. Sales growth is rising and operating margins widening.

Fisher earned $1.30 a share from operations in 1991. (That excludes a $12 million, or 80 cents per share, net restructuring charge.) Greiper expects per-share earnings to be $1.50 to $1.75 in 1992, and $1.85 to $2.05 in 1993. So he thinks the stock's a buy on fundamentals up to $30.

Coal comfort

ASHLAND COAL, Inc., a leading producer of the low-sulfur "compliance" coal that meets the standards of the Clean Air Act, looks to be going from strength to strength. Ever since the $444 million (sales) company was spun off by Ashland Oil in 1988, it has steadily expanded by acquisition, to meet a growing demand for compliance coal. Ashland recently agreed to pay $250 million in cash and stock for Dal-Tex Coal, a unit of United Co.

An Ashland mining machine
Cashing in on low-sulfur coal.

Prior to the Dal-Tex announcement, analysts Joel and Luella White Price of Donaldson, Lufkin & Jenrette already were recommending Ashland as a low-cost producer of low-sulfur coal. Now the Prices like Ashland even more. Dal-Tex, they note, can provide Ashland with a source of earnings to offset several long-term, high-priced contracts due to run out over the next few years.

Last year Huntington, W.Va.-based Ashland earned $2.22 a share, fully diluted, up 39% over 1990. The Prices estimate it will earn $2.35 in 1992, and $2.70 in 1993. That's without the Dal-Tex deal. With Dal-Tex, they say Ashland could safely add nearly 60 cents a share to 1993 earnings, raising their estimate to $3.30 a share. The company's recent NYSE price: 32¾ a share. There are 11.6 million Ashland common shares outstanding. Ashland Oil owns about 60%.

Nixxon

THE BIG-CAP oil stocks, laggards since the fall of 1990, are attracting buyers. Their argument: As the economy recovers, oil prices will start to firm.

Michael Young, Smith Barney's oil analyst, is especially high on Exxon Corp. (recent price, 58⅜). It has a sound balance sheet, the highest return on equity among the majors, and strong international earnings power. Then there's the rich 4.6% yield—quite attractive now that money markets are paying 4%. Moreover, Exxon is the only international oil likely to increase its dividend this year.

But the prospect of an increase has prompted Salomon Brothers energy analyst Bernard Picchi to put a hold on the stock, which he recommended last August. Picchi's complaint: With its dividend at $2.68 a share, Exxon is already paying out 72% of its prospective 1992 earnings. Picchi thinks some of this money would be better spent reinvested in the company.

The stocks Picchi now prefers are four overseas-based international oils—all on the NYSE—that he says have good earnings leverage and that historically pay out less of their profits as dividends. The four are Elf Aquitaine (recently 33⅜), Royal Dutch Petroleum (81⅞), British Petroleum (63¼) and Repsol (28⅞). Their yields are 4.6%, 5.1%, 7.4% and 3.2%, respectively. –HOWARD RUDNITSKY

Methode-ology

AS HOPES BUILD for an economic recovery, investors are rediscovering the stocks of carmakers and suppliers to the carmakers. Among the lesser-known companies in this universe is $147 million (estimated fiscal 1992 sales) Methode Electronics, Inc.

Based in Harwood Heights, Ill., Methode gets about 40% of its revenues from automotive controls. Here, Methode has tapped a growth market with a $10 to $15 spring-loaded switch that assures electrical contact between the sensor on a car's hood and its airbag. The company, which supplies the device to Ford and Chrysler, recently signed a contract with General Motors, and is pitching the Japanese transplants for business.

Another 35% of Methode's sales are in electronic connectors. Together the two operations account for 100% of earnings, which Timothy Reiland, research director of Milwaukee's Cleary Gull Reiland & McDevitt, estimates will be 75 cents a share for the fiscal year ending Apr. 30. For the upcoming year, he expects Methode to earn at least 90 cents. Recent o-t-c price: 9⅞. The company has virtually no long-term debt and over $16 million, or nearly $1.50 a share, of cash.

"What makes those earnings all the more impressive," says Reiland, "is they will be achieved despite two crummy businesses." He means test equipment for printed circuit boards, and printed circuit boards themselves. The former is losing Methode an estimated $1 million, or 10 cents a share; the latter is, at best, close to break-even. Reiland thinks Methode may shrink or dispose of the operations if it can't turn them around.

There are 10 million Class A shares. Another 1.3 million Class B supervoting shares are 67% owned by Methode's president, William McGinley.

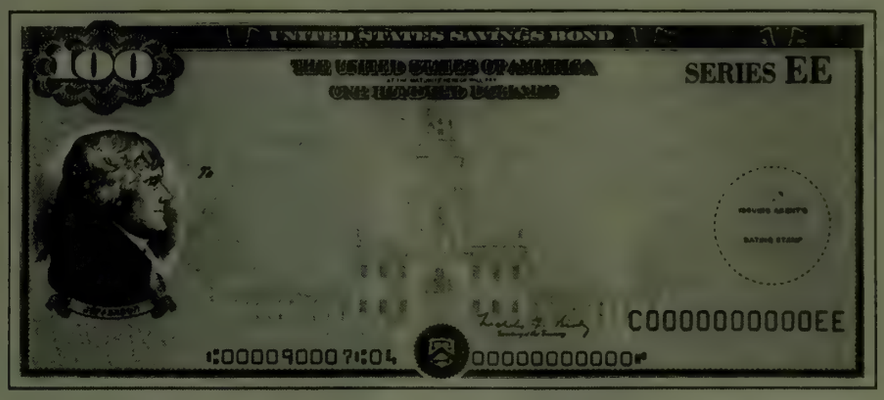
Hold the champagne

LAST FALL the Amex-listed stock of little Houston-based Plains Resources Inc. (estimated 1991 sales of $77 million) gushed from 6¼ to 30¾ on news of a sensational natural gas find in Louisiana. Alas, the pressure in the well Plains had drilled subsequently dropped, and so has the stock—back to a recent 16¾.

Even at this reduced level the stock is high priced. Cautions one of Plains' partners in the Louisiana find: "It's still very risky. It's not quite time for the champagne."

Among the risks: The structure Plains discovered may not be as big as optimists predict. It may also be broken by faulting into many small compartments, some of which might not contain commercial quantities of gas. The pressure drop in that first well implies that Plains has tapped a small fault block whose reserves may barely cover the cost of the well. If the rest of the formation is similarly faulted, tapping it will require many wells and will be very expensive—about $6 million per well, by Plains' estimates.

Plains' past record doesn't inspire much confidence, either. It lost money in all but three years between 1981 and 1990, and was in the red through the first nine months of 1991. Note, too, that in January Plains had a secondary offering of 1.2 million shares at $16 per share, around the recent price. (There currently are just over 10 million shares outstanding.) Sellers in the secondary included shareholders Aetna and Prudential, which cut their stakes in Plains by 64% and 50%, respectively. —TONI MACK ■



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70 years ago in Forbes

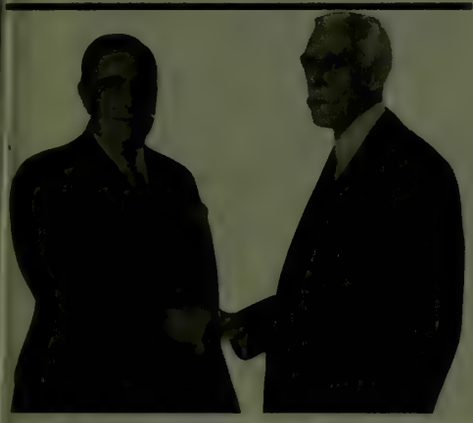
(From the issue of March 4, 1922)

"**The worst brake** on business recovery has been agriculture. That brake is relaxing most gratifyingly. Wheat has gained one-third in value, corn one-quarter, hogs and sheep a substantial amount, while cattle and wool and other products of the farm are also doing better. Cotton, too, has been acting more encouragingly."

"**From the Rio Grande** to the Isthmus of Tehuantepec, a remarkable country lies open to the migrations of commerce and of friendship. By topographical relation, by similarity of political constitution, by golden opportunity and by foresight, the U.S.—younger brother of Mexican civilization lost in far-off antiquity, bigger brother by size, general development and resources already capitalized—should go hand in hand with the Republic of Mexico."

60 years ago

(From the issue of March 1, 1932)



In 1932 Ogden Mills (left) succeeded Andrew Mellon as Treasury Secretary.

"**The writer** has long opposed the proposed imposition of a general sales tax, mainly on the grounds that it would affect many families least able to bear a tax burden. But now that the nation is confronted with something like a $3 billion deficit, confronted with a threatened stiff increase in the tax rate on higher incomes, confronted with [proposed] taxes on a multitude of industries and products, a carefully selected sales tax loses some of its objectionable features. . . ."

–B.C. Forbes

Pontiac, a hot young GM make in 1932.

"**Ford Motor Co.** will shortly introduce a V-type eight-cylinder Ford automobile to augment its Model A Ford, which will be continued in improved form. The two motors will be interchangeable in the same chassis, to be lengthened and redesigned. . . ."

50 years ago

(From the issue of March 1, 1942)

"**More** convert-or-surrender edicts will be coming soon, with vacuum sweepers next on the schedule. Every passenger-car assembly line in the nation is being dismantled, 90% of refrigerator facilities will be turned to war work; there'll be no more radio sets made for civilians, no more new radio stations; [and] 50% cuts in typewriter and washing machine industries will go even deeper."

"**Westinghouse** . . . is setting aside, and will continue to set aside monthly all through the war, ½ of 1% of its huge payroll for the express purpose of 'grub-staking' those of its 78,000 workmen who will have to be laid off when the government stops war work. Since the monthly payroll already exceeds $15 million and is likely to rise, this means that about $1 million will be set up as a reserve in 12 months."

25 years ago

(From the issue of March 1, 1967)

"**It wasn't supposed** to happen, but it did. In a year of sharply lower market prices, balanced funds are supposed to decline less than stock funds because of the many bonds in their portfolios. Last year, however, the balanced fund declines averaged nearly 6%, as compared with a modest 3.9% decline for the stock funds."

"**Possibly alone** in the railroad industry, the century-old Union Pacific Railroad Co. still ranks as a Rembrandt. . . .

In an industry saddled with debt and long-term lease obligations, Union Pacific stands out as the only major company whose holdings of cash and marketable securities come close to matching its debt.

"And yet there are disadvantages in being a Rembrandt; it can make for complacency. Today, after nearly a century of operation, Union Pacific has not even begun to realize its full potential."

For all its oil and other mineral riches, Union Pacific was at heart still a transportation company.

10 years ago

(From the issue of March 1, 1982)

"**Japanese cameras** have become a kind of international wampum, to the discomfiture of their manufacturers. The reason is the current strength of the dollar against the yen, the pound, the franc and other currencies.

The system works like this. Anyone with a sharp eye for exchange rates can buy up a batch of high-priced cameras in, say, Europe, using the local money, ship them to the U.S. and sell them for dollars. . . . The dollar has to be high enough against the currency used in the purchase to cover shipping and other costs [and] a profit."

"**Even as our leaders** in Washington debate what sort of new taxes can be levied to help offset some of the forecasted budget deficit, they are all but ignoring some $15 billion that is just waiting to be picked up. Where is it? In the pockets of taxpayers who have not paid their taxes. 'In 1979 delinquent taxes owed the government exceeded $13 billion,' says a General Accounting Office report that rails at Internal Revenue Service inefficiency. . . ."

No matter what you may read about [A&P heir] Huntington Hartford and his uniquely successful efforts to get rid of the money his family once made selling you groceries, today the big Fooders as well as the little ones net a shamefully tiny profit on their whopping volume of business. As Winn-Dixie's Davis put it to a Forbes editor, "If a woman buys $10 worth of groceries in one of our stores and tips the bag boy a quarter, he's made more on the sale than we have. And we're the most profitable major chain."

–Malcolm Forbes

A Text ...

But this I say, He which soweth sparingly shall reap also sparingly, and he which soweth bountifully shall reap also bountifully.
–II Corinthians 9:6

Sent in by T.J. Long, Altoona, Pa. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

There are only two classes in society: those who get more than they earn, and those who earn more than they get.
–Holbrook Jackson

There are only two classes in good society in England: the equestrian classes and the neurotic classes.
–George Bernard Shaw

English history is aristocracy with the doors open. Who has courage and faculty, let him come in.
–Ralph Waldo Emerson

It is a very curious fact that, with all our boasted "free and equal" superiority over the communities of the Old World, our people have the most enormous appetite for Old World titles of distinction.
–Oliver Wendell Holmes Sr.

Aristocrat: A demokrat with hiz pockets filled.
–Josh Billings

Aristocrats: Fellows that wear downy hats and clean shirts—guilty of education and suspected of bank accounts.
–Ambrose Bierce

Aristocracy: A combination of many powerful men, for the purpose of maintaining their own particular interests. It is consequently a concentration of all the most effective parts of a community for a given end, hence its energy, efficiency and success.
–James Fenimore Cooper

Aristocracy: What is left over from rich ancestors after the money is gone.
–John Ciardi

It is an interesting question how far men would retain their relative rank if they were divested of their clothes.
–Henry David Thoreau

The good Lord sees your heart, not the braid on your jacket; before him we are all in our birthday suits, generals and common men alike.
–Thomas Mann

There is a natural aristocracy among men. The grounds of this are virtue and talent.
–Thomas Jefferson

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Aristocracy is an atmosphere; it is sometimes a healthy atmosphere; but it is very hard to say when it becomes an unhealthy atmosphere. You can prove that a man is not the son of a king, or that he is not the delegate of a definite number of people. But you cannot prove that a man is not a gentleman.
–G.K. Chesterton

The aristocracy of feudal parchment has passed away with a mighty rushing, and now, by a natural course, we arrive at aristocracy of the money-bag.
–Thomas Carlyle

The true policy of a government is to make use of aristocracy, but under the forms and in the spirit of democracy.
–Napoleon I

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It seems the relentless pursuit of the plushest possible driving experience has blinded some of the world's carmakers to a very important point:

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▲ Coil springs and shock absorbers are mounted separately to the chassis for improved ride comfort on uneven roads.

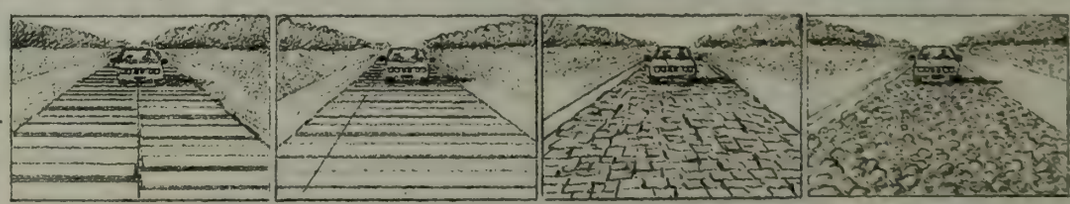
AN AUTOMOBILE MUST COMMUNICATE WITH ITS DRIVER.

The ability of a car to hold the road — and thus, the ability of a driver to maintain control over his automobile — are largely dictated by the car's suspension system. Which is why at BMW — a company long recognized for its achievements in engine technology — every new automotive design is begun not from the engine down, but rather, from the suspension system up.

The BMW 5-Series, for example, offers a perfect case in point. Both the 525i and 535i are equipped with highly developed, internationally patented front and rear s pension systems so refin "the communication wit the driver is perfect" acco ing to the editors of Spor Car International.

Its acoustically decoup front suspension employs unique double-pivot syst with two independent lo er control arms rather tha the conventional single-a design. This increases sta ity, minimizes dive, and pr vides improved control an feel under all driving conc tions. While the track link rear suspension system, al an exclusive BMW design, assures crisp, predictable handling in both cornering and emergency situations.

The extrem ly rigid stee body of the 5-Series en ables the su pension to operate more accurately from a firmer pla form (while also optimizing passenger protection in th



▲ To achieve its outstanding ride quality, the 5-Series is tested and refined on all types of road surfaces.

*See your BMW dealer for details on this limited warranty. **Services provided by Cross Country Motor Club, Inc., Boston, MA 02155, except in CA, where services are provided by Cross Country Motor Club of Calif., Inc., Boston, MA.

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MY STORY

"After 1986 I felt like a skilled surgeon who's been locked out of the operating room and watches through the glass in horror as some first-year medical students go to work on a patient. They're cutting him open while referring to textbooks but they're turned to the wrong chapter."

MICHAEL MILKEN

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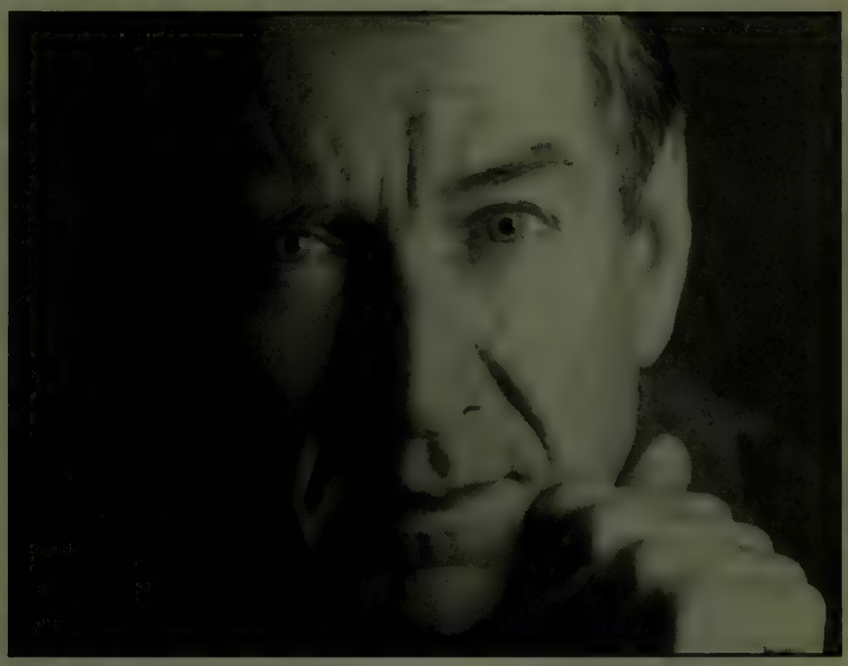

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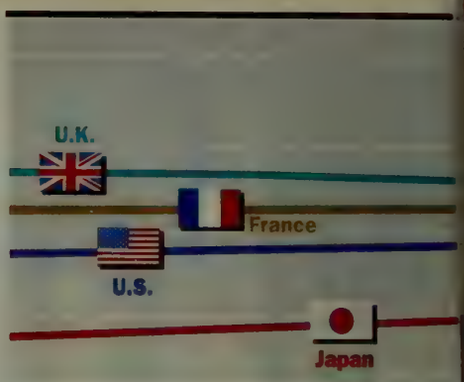

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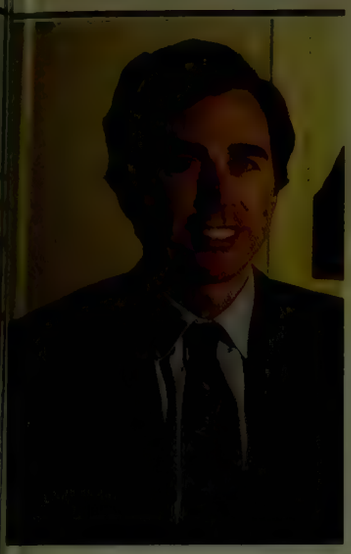

LEFT:
A movie-biz tortoise that clearly has its fans.
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RIGHT:
It's like stepping into a painting by Rousseau—minus the lions.
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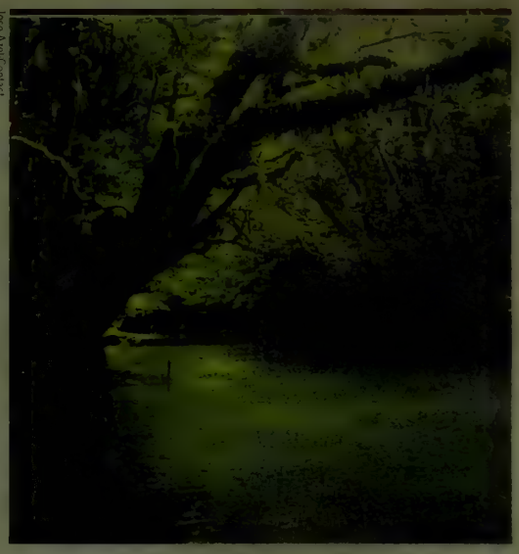

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FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048.

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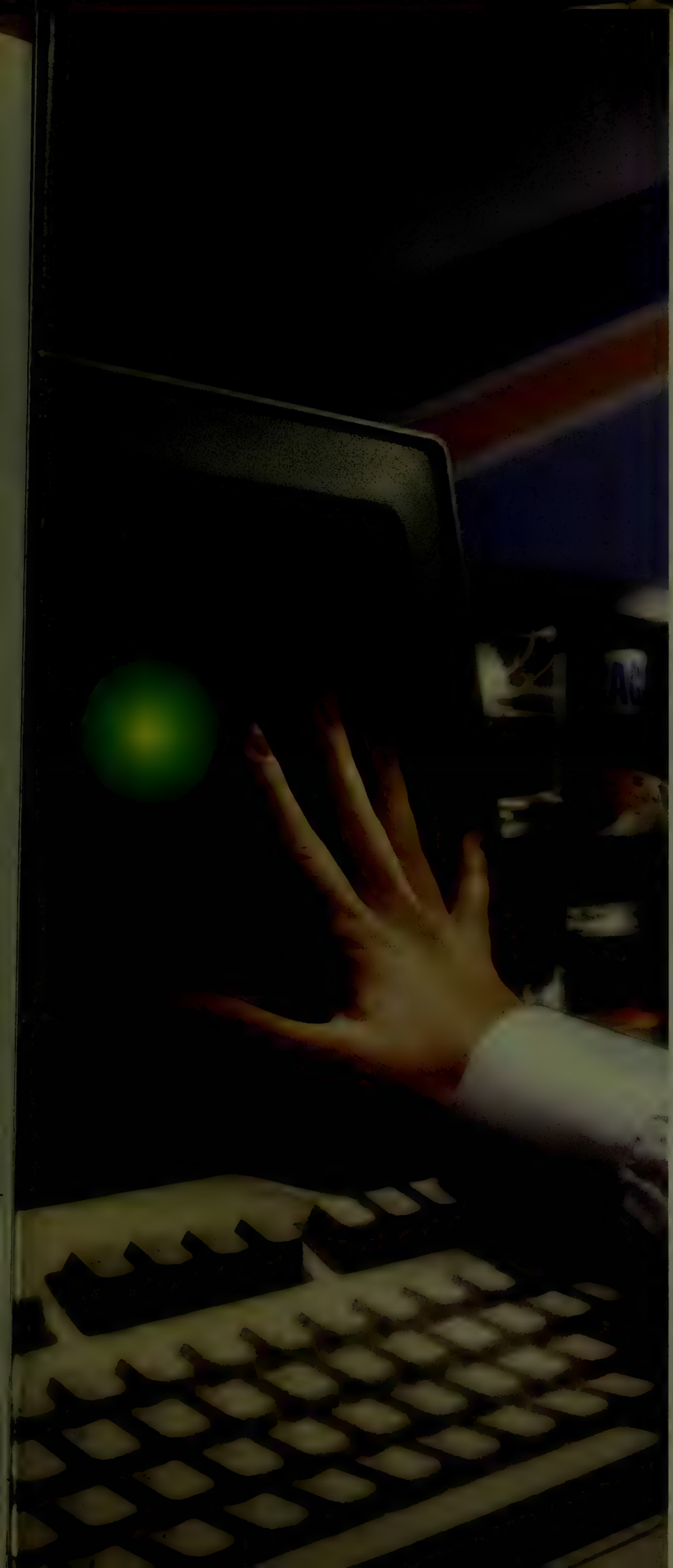

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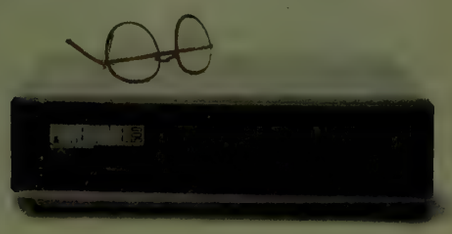

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A chastened man

MICHAEL MILKEN was, as my colleague Phyllis Berman puts it, "the original control freak." In dealing with him for this issue's cover story, we found traces of his old urge to take charge.

Berman and I each visited him in the drab former Army facility that serves as a minimum security prison in Dublin, near Oakland, Calif. In addition, over a period of four months we traded questions and answers on the telephone with Milken. At first he would deliver rambling statements about his philosophy, rolling right over our attempts to ask questions and fighting to dominate the conversation. He clearly wanted to do the interview his way, but as time wore on he opened up and began to answer questions directly, naming names and citing dates. It was, for me, Berman and reporter Jean Sherman Chatzky, an exhausting but exhilarating experience, interacting with one of the most remarkable financial minds of this century.

As a condition of Milken's speaking freely, we agreed to let him and his lawyers read direct quotes before they were printed—lest he say something that would complicate his massive legal problems. This led often to further discussions that prolonged the interviewing but produced additional information and refinements. The process left us convinced that Milken had dropped his efforts to take control of the article and was responding honestly and sincerely to our questions—the friendly and unfriendly ones alike. Mike Milken is a chastened man.

Stephen Johnson

Michael Milken today

He deserves a fresh hearing in the court of public opinion. He started unknown and unconnected and in an obscure firm, yet came to dominate Wall Street before he was 40. You don't travel all that way just by breaking securities laws—although he confessed to violating some. Much of the media accepts as given that the junk bond era he came to symbolize was a disaster. The facts suggest otherwise.

In a way Milken's old desire for control was to blame for his horrible image. First he tried to squelch publicity, then, after Ivan Boesky's indictment threw the spotlight on him, Milken engaged in a childish campaign to present himself as a man whose chief delight was taking poor kids to baseball games. It was the silliest spectacle since Ivy Lee tried to humanize John D. Rockefeller by having the old man hand out fistfuls of dimes to tots. It succeeded only in making Milken ridiculous. More's the pity, because Milken and his family have been extraordinarily generous to a wide range of good causes. Despite his mistakes, his insights deserve to be taken seriously.

James W. Michaels
Editor

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Bet your BP

U.K. INVESTORS WEREN'T exactly impressed with British Petroleum Chairman Robert Horton's appearance on the cover of FORBES *(Feb. 17)*. Barely a fortnight after the article appeared, Horton said he would hold BP's

Barry Lewis/Network Matrix

British Petroleum's Robert Horton
The perils of parsimony.

fourth-quarter 1991 dividend constant, at $1.01 per ADR. Accustomed to a steadily rising dividend, many BP shareholders took this to mean that Horton might cut the dividend this year, and bolted. BP's American Depositary Receipts, traded on the New York Stock Exchange, dropped from 62½ to a recent 53.

But Salomon Brothers' energy analyst Bernard Picchi thinks there's little danger of BP's cutting its dividend and is aggressively recommending the stock. "In a couple of years this company will be a far more profitable producer of oil and gas," asserts Picchi. Meanwhile, at current stock prices the company yields over 8%, versus 4.5% for Exxon and 5.5% for Royal Dutch/Shell.

Cashing out

BOSTON UNIVERSITY President John Silber likes risk. In 1987 BU paid $25 million in cash and guaranteed a $10 million loan to buy 73% of Seragen, Inc., a struggling biotech firm *(Apr. 17, 1989)*. The investment came to a fifth of BU's endowment. Silber has since spent another $62 million or so

John Silber of Boston University
Sharing his biotech burden with the public.

Brian Smale

to fund Seragen's losses.

Now that the market for biotech companies is hot, Seragen is selling 3 million shares—25% of its equity—to the public at $17 to $20 apiece, to fund working capital needs. BU's stake in Seragen after the offering, 69%, will be worth up to $166 million—a paper profit of some $70 million on its $97 million investment. But none of Seragen's products is near commercialization. And its most promising products, genetically engineered toxins being tested for leukemia, arthritis and diabetes, may infringe on another company's patent.

Border brawl

IS DUTY FREE International about to go up in smoke? The company is the dominant operator of duty- and tax-free stores along the U.S. border with Canada, where it hawks cut-rate cigarettes and booze *(Aug. 19, 1991)*.

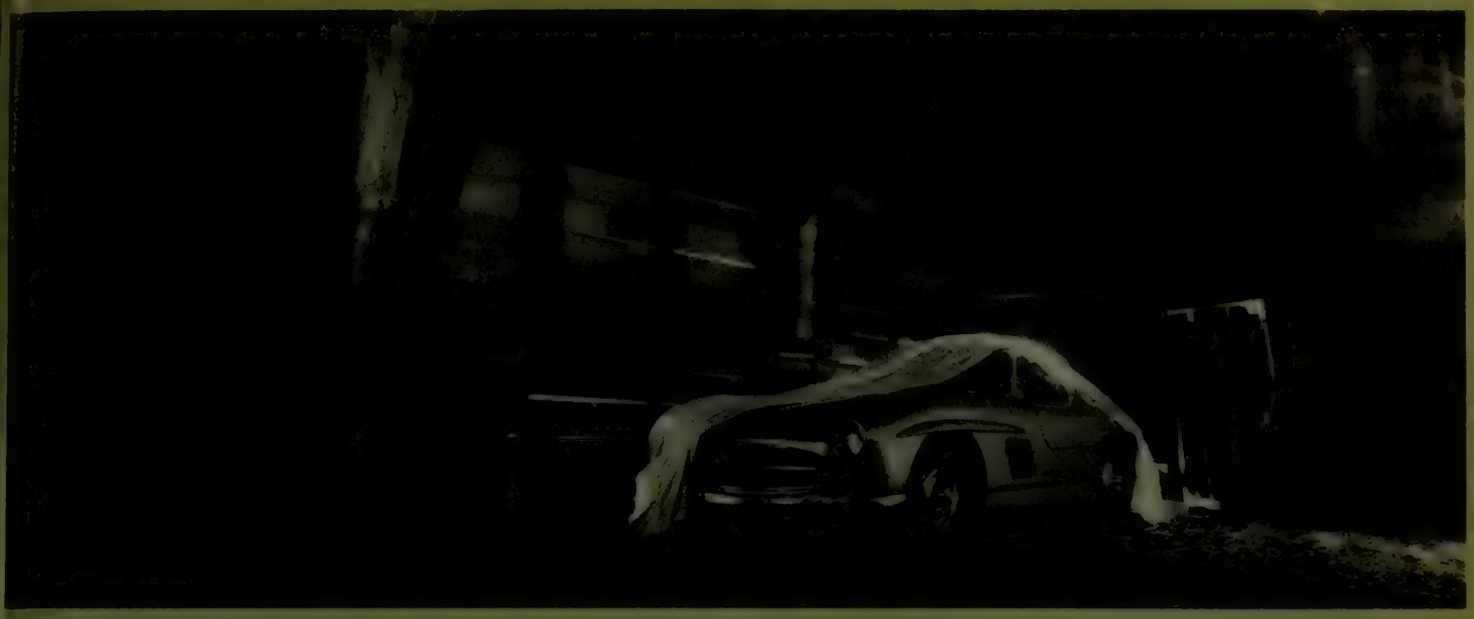
After the FORBES story appeared,

Duty Free's Bernstein and Couri
Northern composure.

Duty Free's NYSE-listed shares climbed from 29 to a mid-January price of 55⅜. But then last month the Canadian government slapped a $6.80-per-carton tax on all cigarettes made in Canada and sold abroad. The news caused Duty Free's stock to skid 6¾ on Feb. 13. Recent price: 39¼.

Short-sellers still hold 2.3 million shares, or nearly 10% of Duty Free's float. "The Canadian government is serious," says one short. "Ultimately, Duty Free won't be able to maintain its volume."

Chief Executive John Couri concedes that the new tax will eventually force him to raise prices. But he says his stores will still offer cigarettes at around 50% less than Canadian prices.



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et the short-sellers note that Couri, 0, and partner David Bernstein, 57, re lifelong veterans of the duty-free usiness. And Canadian cross-border utomobile traffic rose a healthy 20% st year. —JAMES LYONS

Low-tech lender

GEORGE WILLIAMS and David Gladtone aren't crowd chasers. While nost venture capitalists go for things ike biotechnology and computer oftware, their Washington, D.C.-based Allied Capital Advisers stuck to prosaic businesses like orthopedic hoe makers, pizza parlors and roller inks *(Dec. 16, 1985)*.

Prosaic, but profitable. Over the past ten years the closed-end fund Allied Capital Corp. (trading on Nasdaq) returned an average of 35% a year, nearly double the return on the Standard & Poor's 500 Index.

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Allied Capital's Williams and Gladstone
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backed by hard assets like real estate. The equity kickers give Allied big returns if a deal is a winner.

Allied Capital's portfolio of 550 investments includes Centennial Media, a publisher of Yellow Pages directories, and Environmental Air Control, a maker of portable air cleaners for people with allergies. Allied has also lent heavily to franchisees of national food chains like Domino's Pizza and Dunkin' Donuts.

The recent credit squeeze pushed a lot of business Allied's way. Loan applications have risen 50% in the past two years, and Allied Capital's assets have grown to $135 million. Its clone, Allied Capital II, is up to $95 million. —SUZANNE OLIVER

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Bye-bye, Larry

TROUBLED FINANCIER Larry Welch resigned from board and chairmanship of CleanAir Transit, a fledgling Santa Barbara-based electric bus developer, earlier this year. His problem? All those reports about Alert Holdings, the security alarm outfit Welch helped drive into bankruptcy (FORBES, *Feb. 3, 1992; July 22, 1991*).

Welch and his cohorts are being sued by investors in four class-action suits alleging they misrepresented Alert's prospects. "His association with Alert was making people hesitate to invest in CleanAir," says CleanAir board member Donald Hodel, a former Reagan Administration energy secretary. Welch's associate Richard Harmon also resigned as CleanAir's president.

Welch does, however, remain a CleanAir shareholder and still has a contract to raise money for the company. "If he's able to raise money," says Hodel, "that's nifty."

–EDWARD GILTENAN

Minors beat majors

MOST BASEBALL players in the major leagues collect about $70,000 a year in royalties from licensing programs that include makers of baseball cards. The money comes through a group licensing contract negotiated by the Major League Baseball Players Association. But Brien Taylor, the New York Yankees' newly signed pitcher, will be getting at least $200,000 in card royalties this year. That's because the 19-year-old left-hander with a 94mph fastball signed a minor league contract. Hence his agent, Scott Boras, was free to auction rights to Taylor's minor league baseball card to the highest bidder. (Score Board's Classic division and industry stalwart Topps Co. agreed to deals.) This tidy sum is on top of the record $1.55 million signing bonus the Yankees paid Taylor last summer.

–RANDALL LANE

Jim Gund/Allsport

New York Yankees' Brien Taylor
Rich before a pitch.

Microsoft's Bill Gates
What's $10 million to him?

Soft leaving

MICROSOFT'S departing president, Michael R. Hallman, 46, will leave the Redmond, Wash. software giant clutching a $10 million good-bye gift from Chairman Bill Gates and Microsoft's shareholders. Last October, Hallman, who came to Microsoft only in 1990 from that other big Seattle outfit, Boeing, exercise 187,500 stock options at an averag price of $37.17. At the time Microsof was trading at about 90.

Hallman would, of course, likel have done better if he had stayed. I addition to Hallman's losing hi $600,000-a-year salary, Microsof canceled over 85% of his remainin options, which have a current value o almost $38 million.

–STEVE KICHER

The Tengiz squeeze

THE TENGIZ field in the Republic o Kazakhstan is probably the bigges jewel among the neglected oil riche of the former Soviet Union. It may hold as much as 25 billion barrels o oil—as big as Alaska's North Slope.

Which Western company will win rights to this oil? A year ago the oil bureaucrats in Moscow awarded Tengiz to Chevron. That upset nationalistic Kazakh officials, who had already signed their own letter of intent with

Oil drillers in Kazakhstan
Will Chevron lose out to BP?

British Petroleum. Moscow responded by threatening to cut BP out of any deal in the Russian Republic, home of 90% of the region's oil. BP retreated.

In the aftermath of the bust-up of the old Soviet Union, Chevron has recently been trying to strike a new Tengiz deal with the Kazakhs. As for British Petroleum, it is negotiating for a smaller field nearby. BP exploration chief John Browne has been visiting Kazakhstan for two years. The Kazakhs have no doubt noticed that Browne's counterpart at Chevron has never been to the republic; neither has the company's head of international exploration.

Could BP end up with Tengiz after all? Publicly, BP denies any interest in Tengiz, calling it technically too difficult. But watch such objections melt away if the Kazakhs decide they'd rather play with BP than Chevron.

–TONI MACK

Ghouls' pools

HOW'S THIS for a creative way to separate fools from their money? A new mutual fund from World Invest Corp. in effect invites old folks to bet that they can outlive other old folks. The 1992-A Seniors' U.S. Treasury Bond Fund—currently in registration with the SEC—will be open only to men over the age of 60 and women over the age of 65. The fund will buy 30-year U.S. Treasury bonds. The bonds will be divided into 12 pools. The funds' investors will also be split into 12 groups, depending upon age and actuarial life expectancy. When a fundholder dies, his or her account within the pool will no longer receive interest; instead, the interest will be credited to the accounts of the surviving members of the pool. Thus, whichever pool member lives longest will earn the best return. Those who die relatively early will forfeit huge amounts of interest.

The heirs of those fundholders who fall by the wayside will receive the principal—but not until the fund is liquidated. This will happen either 30 years from now or upon the death of the last pool member, whichever comes sooner. For their efforts, the managers of this ghoulish scheme will take an 8.75% load fee right off the top. What a rip-off. –S.K.

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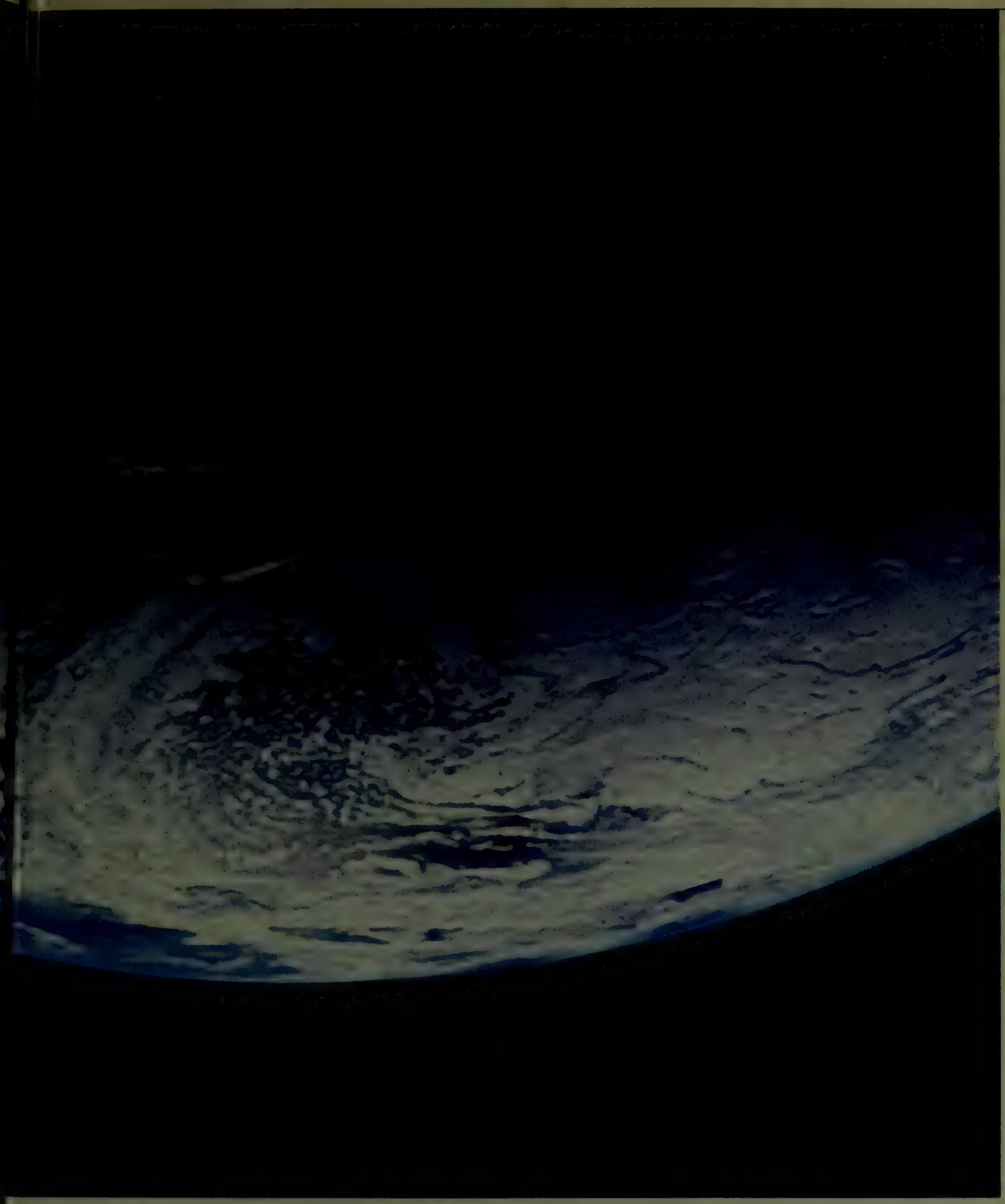

practices of the countries in which they work. As well as local insurance markets and needs. That's why multinational businesses can rely on our people and our services. In the seven decades since our founding, we've built a global network in 130 countries and jurisdictions that could not be duplicated today. At any cost.

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Laissez-faire

SIR: Re senior editor Jerry Flint's article "The case for protection" *(Feb. 17)*. The last time the big three pressured the government for protection they got quota caps on Japanese imports and a tenfold increase in truck import duties, which led to higher prices and hefty profits for American and Japanese carmakers alike. Consumers paid dearly as a result. Future government policy would do well to focus on changing big three, and not consumer, behavior.
–IORI SUZUKI
North Caldwell, N.J.

SIR: The industry will survive in some form. It is not hard to fathom a future in which Ford and Chrysler are owned by Nissan and Mitsubishi, who will improve their performance. The U.S. auto industry may not be expendable; the big three are.
–CRAIG A. JACOBSON
New York, N.Y.

SIR: In the long term, the only way Detroit can survive is to become competitive. Protection fails to provide incentive to improve.
–TOM F. SMITH
Tokyo, Japan

SIR: Workers in the American auto industry, from those in the boardroom to those on the assembly line, are among the highest paid in the nation. If one wants the government to protect Detroit from the Japanese, who will protect the consumer from the greed of Detroit? The issue is one of providing value to the consumer.
–SHELDON G. CANTOR
Plainsboro, N.J.

The Canadian way

SIR: No inhabitant of Canada need fear that great American bugaboo—medical pauperization ("Health care cost crisis crossroad," *Fact and Comment, Feb. 3*).
–J.R. CHARLTON
Scarborough, Ontario

Money is the issue

SIR: The silicone implant controversy is about money, not women's health ("A woman's right to choose," *Feb. 17*). Lawyers see big settlements, cosmetic surgeons see loss of revenue and Dow Corning sees profit loss from the actions of the lawyers and doctors.
–KERRY PRENDERGAST
New York, N.Y.

Shopping for health care

SIR: Re "Health junkies" *(Feb. 3)*. "Effective competition" can be realized by patients, employers and insurance providers being better able to intelligently choose the most effective physician and health care services. Using a team approach to develop comprehensive profiles on health care providers and services would reward the most effective doctors, as well as those footing the bill for medical services.
–MIGUEL A. FRANCO, M.D.
Houston, Tex.

James Schnepf/Gamma Liaison

A GM robot welder
Protectionism is not a solution to the big three's problems

No-win situation

SIR: While I agree that the expansion of the tort industry ("The tort tax," *Feb. 17*) has reduced the quality and availability of many goods and services, I do not support the English Rule, whereby losers pay the winners' costs. Such a rule would in effect scare away those plaintiffs who do pose a legitimate suit but because of their limited financial situation would not continue with legal action for fear of perhaps reimbursing a $200-an-hour defense law firm if they lose.

–ANTHONY N. MAMAS
Philadelphia, Pa.

Marketing strategy

SIR: The management of leading department stores know well that price is but one determinant of purchasing behavior ("Business as usual," *Feb. 3*). Other components of the marketing mix such as quality, selection, service and ambiance count for a good deal more than is suggested in the article.

–FRANCESCA TURCHIANO
President
InFact
New York, N.Y.

Right from wrong

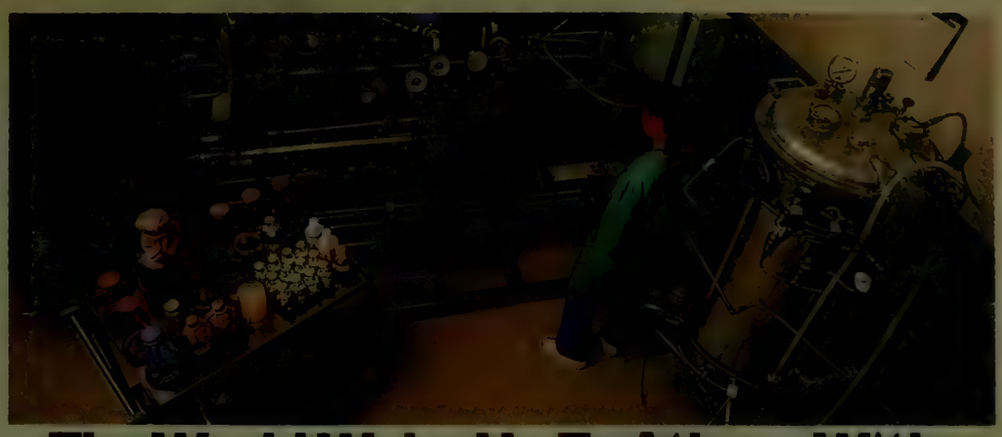
SIR: Re "Policy puzzle" *(Feb. 3)*. In the reported case, a bank was sued for some sharp business practices, and the court required it to return its ill-gotten gains. I doubt whether anyone who has genuine claims and needs money from the insurance pool would think that this is a legitimate "withdrawal."

–E. RICHARD CREBS
President
Commercial Insurance Alternatives
St. Helena, Calif.

Bitter aftertaste

SIR: Re "Great President" *(Fact and Comment, Dec. 9, 1991)*. The real legacy of the Reagan Administration is now upon us in the form of a recession and long-term economic readjustment.

–RICK REIDY
President
Total Gold Music, Inc.
Hollywood, Calif.



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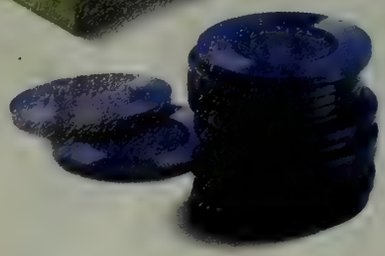

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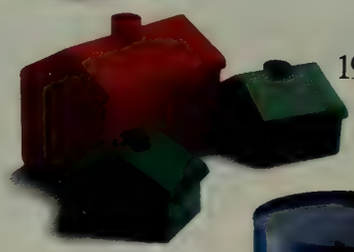

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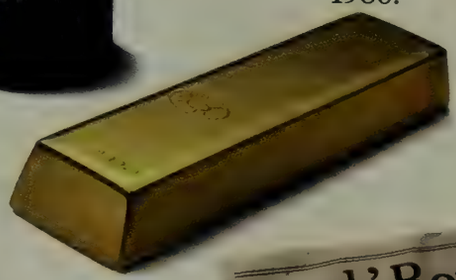

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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

CHEAPER MONEY

BONDS HAD A BIG YEAR in 1991. Despite the recent runup in interest rates, bondholders and mortgage-refinancing homeowners will have a nifty '92. Thirty-year Treasury yields, now 7.9%, should fall to 6.5%. Mortgage rates will also be coming down again.

The Fed is informally targeting gold as a guide for monetary policy because it is a sensitive inflation barometer. As long as the yellow metal stays within the $350 to $365 range, the cost of money will shrink. Our central bank will not repeat the inflationary follies of the 1970s.

WOE IS THEM

- The stock market has crashed, losing 50% of its value.
- Real estate is crumbling.
- Banks are failing.
- Imports are soaring.
- Scandals are battering the government.

The U.S.? No, Japan.

JAP BASHING/YANK BASHING

POLITICOS AND EXECUTIVES on both sides of the Pacific should declare a moratorium on mutual name-calling. Otherwise, political and economic policy will be driven by destructive myth.

Misconceptions abound. Contrary to criticism, American work habits are superb. Where there is a problem with our labor, bad management is usually the villain. American manufacturing workers in Japanese-managed facilities here are often more productive than their American-managed counterparts.

Despite recession-caused temporary travails, American manufacturing itself is in remarkably sound shape. Growth of output and productivity in the last ten years has been better than that of any other industrial country, except Japan, and there the gap is a fraction of what it was in the 1970s. That's a comeback, not a comedown.

American technology and inventiveness still lead the world, whether it's in fiber optics, advanced microprocessing devices or digital TV screens. We continue to hold almost two-thirds of the world's software market.

Investment in the U.S. economy in the last decade has been above historic norms. If we get a meaningful capital gains tax cut, we will have another round of high-tech startups and advances.

American misunderstandings about Japan are also rife. Dai Nippon is no longer the Prussianesque centrally-managed economic machine of legends past. Japanese imports are soaring, not just for raw materials but for manufactured and consumer goods as well. Their imports per capita are almost as high as the U.S.'

Japan's closed economic system is slowly crumbling. Next month a critical prop for its convoluted retail system will go by the boards. No longer will manufacturers be able to dictate prices. Without these fixed, high prices, thousands of retailers are expected to close. With distribution simpler and pricing a competitive factor, American products will have a better chance to break in. Millions of Japanese now visit other countries and can compare prices overseas with prices at home, adding pressure for more openness.

Trade barriers are increasingly being attacked successfully. No country is as open as ours, but it won't be too long before Japan is no more difficult than Europe. Tokyo's rigid grip on parts of the economy is being undermined. Waves of scandal are discrediting government "guidance" of the capital markets and the banking system.

Japan and the U.S. are too crucial to one another to let this flap degenerate into a serious breach.

COUNTERFEIT CONSUMER PROTECTION

THE U.S. SENATE has passed a bill slapping price controls on cable television. The House may soon follow suit. The legislation is supposed to protect customers from monopolistic price gouging. Actually, the proposed law is an undeserved gift to the major networks and their affiliates. The President should veto it. If Congress is really

interested in helping the consumer, it should encourage competition rather than hinder it.

Since cable was deregulated in the mid-1980s, its share of the TV market has skyrocketed. Its revenues now surpass those of the networks. By regulating rates, the bill will slow cable growth by making expansion and new programming less easy to finance. The legislation also forces cablers to pay the networks up to $3 billion a year for beaming network shows to cable customers. Why should cable carriers have to pay for programs that the rest of us receive for free? After all, the networks received their airwave rights for nothing while cable operators had to pay for laying their wires.

Gerry Mooney

Giving local governments the right to set rates will also increase corruption.

To encourage competition, Congress should let phone and cable companies enter each other's markets. A growing number of cable outfitters are gaining capacity to compete for local telephone service. The Baby Bells, in turn, want to transmit programs over their lines; they should also be permitted to develop their own projects. (These activities, of course, could not be subsidized with regular telephone revenues.)

Congress might ban local governments from awarding monopolistic franchises. Let anyone who wants to provide cable service in an area do so. Cable and phone companies should also be given the green light to provide electronic versions of classified ads. Why shield newspapers from competition?

Washington must realize that regulation cannot keep up with the fast pace of technology, which is obliterating traditional communications boundary lines. There will be new providers of information, including satellite broadcasts and microwave TV. Fiber-optic wires and digital TV screens will merge the telephone, television and computer. Unfettered technology and competition are the most effective trustbusters around.

WE WISH SHE WOULDN'T GO

FOR THE FIRST TIME in nearly 40 years, Senior Editor Ruth M. Gruenberg won't be listed on FORBES magazine's masthead. She had wanted to step down and retire a year ago but reluctantly agreed to stay on until now.

Ruth played a critical part in the evolution of this publication. Years ago she established our editorial checking procedures, which are the most comprehensive in the industry. (Learning to fact-check a FORBES story was an educational experience for me that made college seem easy.) Many of the people she personally hired as researchers now hold senior editorial posts. She played a critical part, too, in setting up our Statistical Department. She also served for a long time as the "Copy Editor" for Fact & Comment.

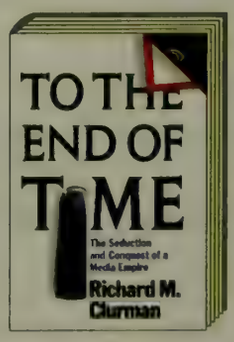
Yuefei Zheng

But Ruth was more than that, being a wonderfully wise and sensitive sounding board as well as a font of down-to-earth advice. She had a great knack for asking my father or me in a delicate way, "Is this what you really want to say? This is how it will appear to others." Even though that might be how we thought it would appear, she made it clear that that might not be how we would want it to appear.

As impressive as her career at FORBES has been, what has truly made Ruth unique is her humanity. Her warmth, empathy and understanding are deep, genuine and unmatched. Scores of us here would go to her for help; we instinctively trusted her. Without Ruth, FORBES wouldn't be what it is today. Her concern for others will continue to be an inspiration to all of us who worked with her. Godspeed, Ruth!

LUCE LEGACY LOSES TO GLITTER AND GREED

To the End of Time—Richard M. Clurman (Simon & Schuster, $23). Eye-popping, jaw-dropping, page-turning tale of how dealster Steve Ross (who just annointed his successor) conquered venerable Time Inc. Time executives and directors became willing collaborators to a bargain which immensely enriched Ross (nearly $200 million), Warner shareholders and Time's own top honchos, while abruptly rejecting a competing, substantially better bid. Today Time stock sells at around 50% of its pre-merger high; its magazines continue to flounder and shrink; the much ballyhooed synergy between print and TV is as illusive as ever; and the occupants of its executive suites get richer and richer and richer.



Excerpt: *After denying it three times, Ross finally admitted that for years, including the period during the '70s when the [Westchester Theatre] bribery and fraud occurred, he kept a secret briefcase in his office closet stuffed with tens of thousands of dollars in cash. Had the Time executives and outside directors asked and found out these or other easily obtainable facts and insights about Ross and the history of his management, maybe it wouldn't have mattered to them. Nor might it have made any difference to know that Ross's recollection of his WWII service, his college degree, pro-football experiences and other milestones in his autobiography were the products of his own imagination. [But] ask Ross what the most important thing is to know about him and he responds proudly, "More important than anything else is that my word is my bond."*

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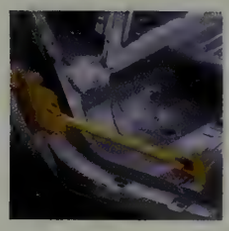
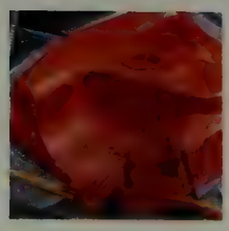
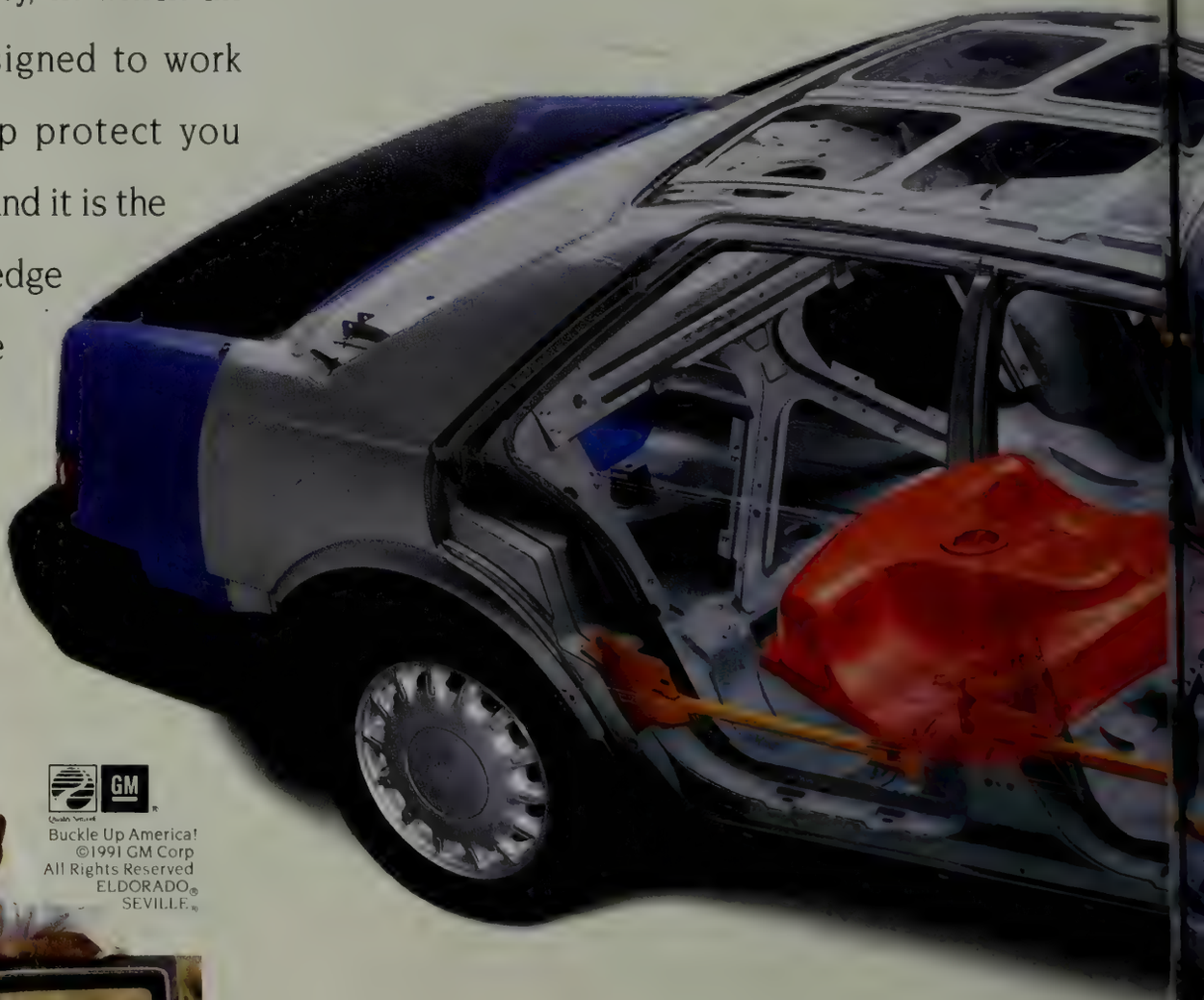


Rugged side guard door beams help the Seville and Eldorado meet federal side impact testing standards not required until 1997.



Fuel tanks on front-drive Cadillacs are placed forward of the rear wheels and suspension for protection in a collision.

*Driver's-side air bags are tested with lifelike dummies sized to the 5th, 50th, and 95th percentiles of the population, exceeding federal requirements.**



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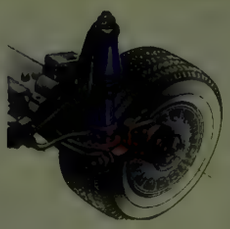

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- *Instrument panel cross car beam.*

Other Comments

What Gives?

THE FINANCIAL system is in far worse shape in Japan than in the U.S. Last year Japan's Fair Trade Commission reported that the country's major stockbrokers routinely and systematically rigged the stock market for at least four years. Leading brokerage houses created bogus trades to generate big gains for selected clients. They also compensated big clients for losses incurred in their stock trading activities. Why? In return for special attention and consideration, big accounts awarded brokers huge fees for their underwriting business.
–EDWARD YARDENI, chief economist, C.J. Lawrence

Rocket Man

I AM very proud to be an engineer. But that pride is not without ample frustration. Engineers have abjectly failed to convince large numbers of young people that there might be something exciting about building great dams, designing a phone you can carry in your pocket or developing a backpack used by an astronaut flying 25,000 miles an hour through space.

The word "technology" conjures up images of Chernobyl, Bhopal and the *Challenger*. Too often technology is perceived as the problem rather than the solution; as something to be avoided rather than embraced. This is about as logical as my daughter's observing, while our family was driving through an unfamiliar city, "Trying to read a map while driving causes all the traffic lights to turn green."
–NORM AUGUSTINE, chairman and CEO, Martin Marietta Corp., *Newsweek*

Less Could Be More

THERE'S REASON to suspect [Japanese Prime Minister] Miyazawa and [speaker of the lower house of the Diet] Sakurauchi have it exactly backward. From a Japanese viewpoint, their criticism ought to be that Americans would have a better society if they worked less; in particular, if women stayed at home and tutored the children, education might improve and crime decline.

In output and productivity, the Japanese have rapidly been closing the gap with America. This is not because they work harder, but because they save and invest more. Americans could produce more with less work, and maybe even afford to have women stay home, if their tax code did more to promote savings and investment.

It would be nice if American pressure could help free the Japanese people from the mercantilist yoke. But when America strikes back with microchip cartels, trade barriers or Japan-bashing, it hits itself in the toe. How about retaliation with a little Yankee ingenuity, like a Super 301 green card? If Japanese politicians want to brand [our] society decadent, let's see in which direction scientists and engineers would like to immigrate.
–ROBERT L. BARTLEY, *Wall Street Journal*

A suggestion to the Republicans: Don't be beastly to the Democratic candidates; these guys are your allies, not your enemies.
–JAMES RESTON, former executive editor, *New York Times*

Opposites Repel

THEY WERE corporate America's odd couple. There was the steely, guarded N.J. Nicholas Jr., the epitome of the button-down culture of Time Inc., and there was the suave, garrulous Steven J. Ross, the embodiment of the freewheeling style of Warner Communications Inc.

In theory, the arrangement might have been complementary. But Nicholas apparently did little to ease the mutual suspicions between the Time and Warner sides. Tension between the executives seems to have come from Nicholas's tenacious defense of his old Time turf; his comparative slowness in moving toward decisions; differences over the increasingly bitter issue of executive compensation; arguments over the stock rights offering last year and, ultimately, a sense that Mr. Nicholas was acting as if the company was already his.

That was a fatal miscalculation.
–ROGER COHEN, *New York Times*

Et Vous?

PEOPLE are divided into three groups; those who make things happen, those who watch things happen and those who wonder what happened.
–GORDON GOSS and VALERIE THORNTON, *Overheard at the Square Dance*

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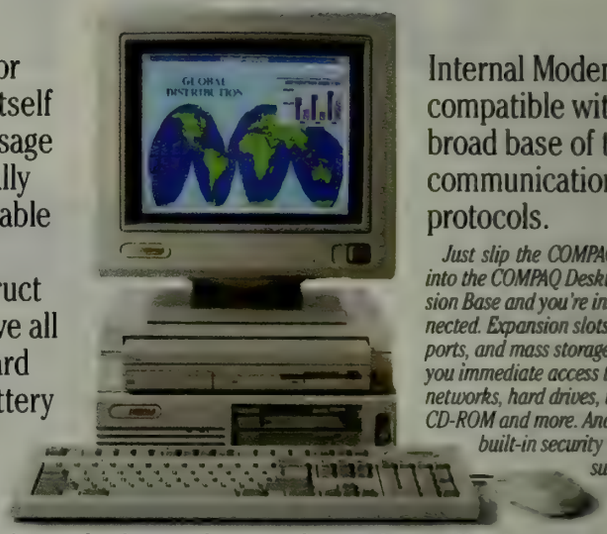

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In modem talk, that means tr V.32 9600-bps data transmission V.42bis compression for up to 38 kbps throughput, as well as full s port for Hayes AutoSync.

This little marvel negotiates t fastest transmission through put that the other end the line can muster, whether it's sendi or receiving.

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Or for that mat another modem to catch

NOT ONLY SMART, BUT BRIGH

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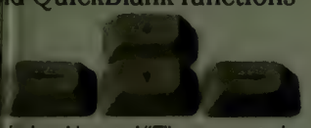

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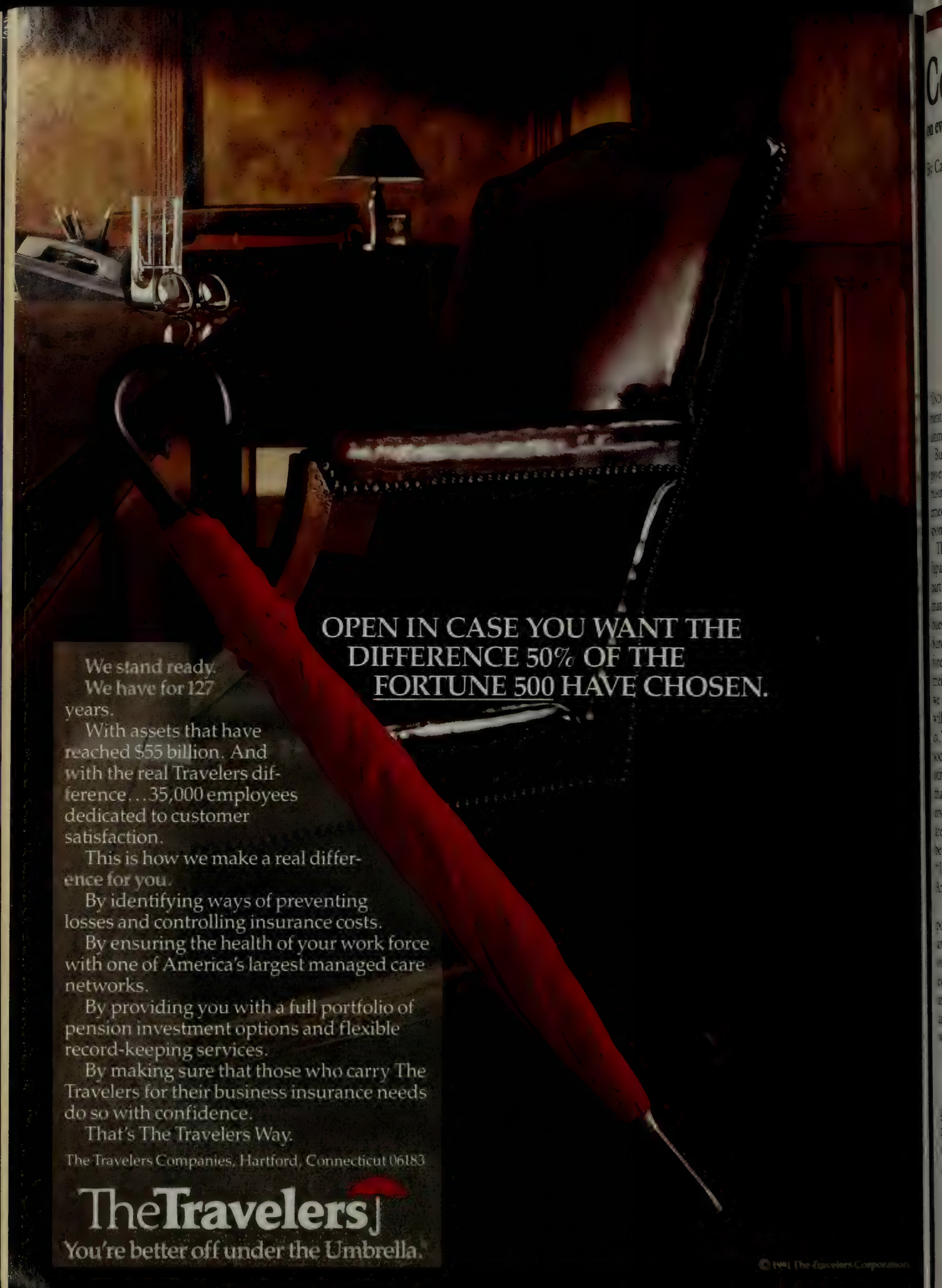
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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

INDUSTRIAL POLICY—THE "NEW SOCIALISM"

"INDUSTRIAL POLICY" is the well-bred term for government intervention in managing and protecting (and, ultimately, controlling) business and industry.

But isn't this really the essence of socialism—that government planners and decisions are required because business cannot, and should not, be allowed to be governed by the free market? It is indeed, even if some of its sponsors are businessmen who should know better.

The automobile manufacturers who recently went to Japan with President Bush sadly, and incredibly, were part of this nascent movement. They seemed to be saying that too many Americans are buying Japanese automobiles, so our government must do something about it. Surely it is a legitimate function of our government's foreign policy to persuade other governments to keep their markets as open as ours; but those who demand that we penalize Japan because its manufacturers are selling to willing American buyers are promoting "industrial policy," or socialism with a business face—part of the same socialism which has failed wherever tried. There is no other way to describe business demands for legislation that makes it more difficult or expensive for our consumers to buy the cars they want, regardless of where the cars are made. Demands for government action of this type become even more self-destructive in light of how many "Japanese" cars, and their parts, are made in the U.S. by American labor and management.

We have had far too many protectionist-isolationist policies as it is: tariffs or restrictions on textiles, peanuts and sugar, and absurd requirements that formerly forced our military in Europe to buy U.S. coal and ship it there, even though European heating plants could not use our anthracite coal without expensive modifications. There are many other examples, yet even more of these policies is what proponents of "industrial policy" are demanding.

The European Factor

All this is particularly important because a major struggle is under way that could determine whether the European Economic Community (EEC) will be a free market or whether it will succumb to French (and, to some extent, Italian) demands for protectionist subsidies and anti-competitive regulations designed to "help" their industries overcome the rigors of the free market.

Theoretically, the EEC could block national protectionism in all its forms. But the concern is that 1992 will see the increasingly powerful European Commission disregarding the pleas of England, Holland and others for free-market policies. Indeed, this was one of Margaret Thatcher's main worries about the Common Market. The big unknown is the position of Germany, which is normally a free-market country. Some of its biggest industries, such as electronics, aerospace and, of course, auto manufacturing, are beginning to demand more government (read protectionist) "help."

This demonstrates the vital stake we have in which side wins this Common Market struggle, for upon that outcome turns our own ability to trade freely with Europe. Because of this, it is fatuous for the President's critics to demand that he turn his attention away from foreign policy to concentrate on domestic issues. This demand only displays lamentable ignorance of how interlocked the world's economies really are. Virtually everything that happens anywhere in the world affects our own economy, including our employment, our revenues and, indeed, the welfare of all our people.

Domestic Concerns

As we move further toward our critical presidential election, it is necessary to point out how disturbing are the Democrats' plans for our economy. Belatedly recognizing that the five candidates who divided the New Hampshire vote are looking more and more like early arrivals in the spring training camp of last year's last place team, Democratic congressional leaders have urged that Governor Cuomo, Congressman Gephardt and even Senators Gore and Bentsen (presumably the A team) enter the race. The really disquieting thing about this is that, as with the feeble five, none of these men has any real expertise in, or even understanding of, basic international issues, and most have already yielded to the siren call for more industrial policy.

In short, if the New Hampshire five are to be joined by three or four more of the same isolationist-protectionist stamp—and with far too many Republicans supporting a television commentator who has also quaffed the intoxicating waters of populism and isolationism—the prospects for America's fulfilling its role in a globally interlocked economy are, at the moment, not bright. ■

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Does Big Steel really need protection?

ON MAR. 31 the voluntary restraint agreements (a.k.a. quotas) limiting steel imports from Japan, the European Community and 15 other countries to a maximum 20% share of the U.S. market are scheduled to expire. Industry lobbying is already beginning for VRAs to be extended *(see story, p. 40)*. The betting is that steelmakers will deluge the International Trade Commission with dumping complaints, which will eventually lead to new restraints.

U.S. trade negotiators hope, however, that a new multilateral steel agreement will be sufficient to persuade Congress that quotas are no longer required. It seems a pretty vain hope. Many steel companies and the labor unions are unlikely to be satisfied by the multilateral agreement—due to be completed, no coincidence, by the end of March—since it will not prescribe such things as import limits or market shares. It will merely contain prohibitions on market-distorting government subsidies. However, the latest draft of the agreement leaves the door open a crack for some continuing voluntary restraints, but probably not open enough to suit U.S. protectionists.

Politics aside, the reality today is that the more modern parts of America's steel industry don't need import limits. The combined effect of pressure on foreign governments not to subsidize their domestic producers, the lower dollar and productivity improvements by most of the U.S. steel industry has changed the competitive balance.

Steel imports peaked at over a 26% share of the U.S. market in the mid-1980s, when dumping was still rife. U.S. steel exports were running at under 1 million tons a year (specialty steels unobtainable anywhere else). But in 1991 imports gained only an 18% market share, below the 20% limit set by the VRAs. Meanwhile, exports of U.S. steel had shot up to over 6 million tons. Protection's cost to users through higher prices, $800 million in 1988, has clearly declined.

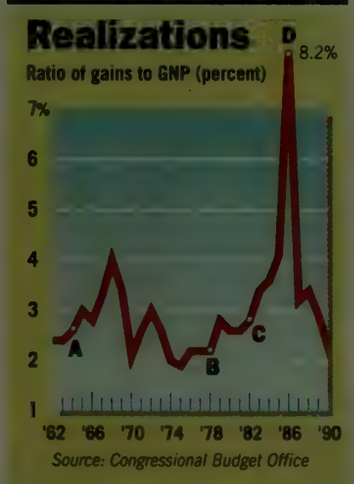
Some old-line steelmakers, like Bethlehem, which is calling for VRAs to be extended, are saddled with expensive labor agreements, huge pension and plant shutdown costs and very costly early retirement deals. But under the skirts of import limits, minimills have developed that are encroaching on more and more of the integrated steelmakers' turf. Nucor Corp., for example, now has a plant that can make sheet steel for the auto and appliance industries.

–JANET NOVACK

A matter of timing

THIS CHART SHOWS just how much discretion people (especially the better-off) have over the timing of realizing their capital gains. The long running average for realizations has been around 2% or so of GNP. But when taxes on capital gains were reduced—in 1964, 1978 and 1982—realizations doubled, to around 4% of GNP. Note, too, that the spurt to over 8% of GNP in 1986 was in anticipation of the well-advertised increase in 1987 in capital gains taxes from 20% to 28% (and no preference over ordinary taxes), as part of tax reform.

A Christel/Forbes



A: The cut in top tax rates to 70% led to higher realizations. B: Capital gains rate cut from 35% to 28%. C: Capital gains rate cut to 20%. D: Capital gains rate lifted to 28% and preference over ordinary income ended.

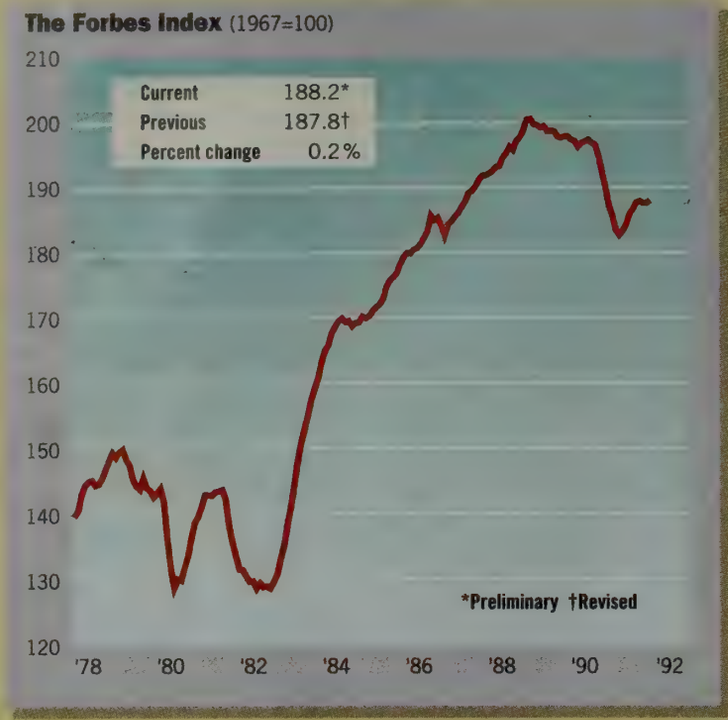
What's been totally missed in the current debate over cutting capital gains taxes is just how sharply realizations—and hence tax revenues—have dropped since then.

Richard Armey (R–Tex.), the ranking Republican on the Joint Economic Committee, has pointed out that the Congressional Budget Office estimated that in 1990, the latest year for which tax figures are available, capital gains realizations would total $254 billion, or over 4.5% of GNP. The CBO's estimate was way off. Just $120 billion in gains were realized. The "missing" $134 billion meant that the Treasury was short nearly $38 billion in tax revenues it had been expecting. The CBO has yet to acknowledge its error.

The chart also makes clear just how cost-effective cutting capital gains taxes is. Assume that history is repeated and that a lower rate on capital gains increases realizations by at least 2% of GNP, equal to around $117 billion this year. The CBO and the Democrats say that a 15% rate would "cost" nearly $18 billion a year in taxes forgone. But based on past performance, such a cut would generate at least that much in extra revenue. They also grossly underestimate the extra tax that would result from the increased economic activity that a cut would cause.

THE FORBES INDEX

BY TIMOTHY DODMAN



Recessions are like forest fires—destructive, but capable o sowing the seeds for future growth. The current recessio helped bring down the trade deficit to its lowest level sinc 1983. While exports set a record in 1991, imports declinec for the first year since 1982. Likewise, consumer anc corporate balance sheets are being rehabilitated.

The economy is beginning to show signs of a recovery January housing starts were 38% above their depressec January 1991 level. And auto sales may have turned th corner *(see table below)*.

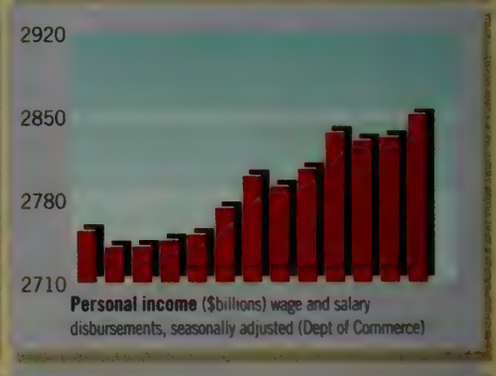
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.5%
Auto sales year to date vs 1991[1]	Ward's Automotive	2.7%
Index of leading indicators Dec vs Nov	Dept of Commerce	-0.3%
Trade balance 12 months ended Dec 1991	Dept of Commerce	-$66 bil
All-commodity producer price index Jan vs Dec[2]	Dept of Labor	-0.3%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	0.3%
M2 (3-month change)—annualized growth[3]	Federal Reserve	4.0%

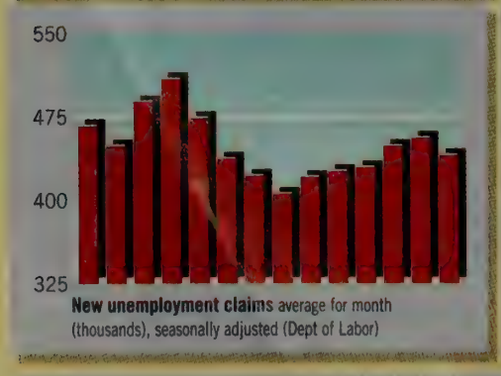
[1] U.S.-based manufacturers, excludes imports, as of 2/10/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

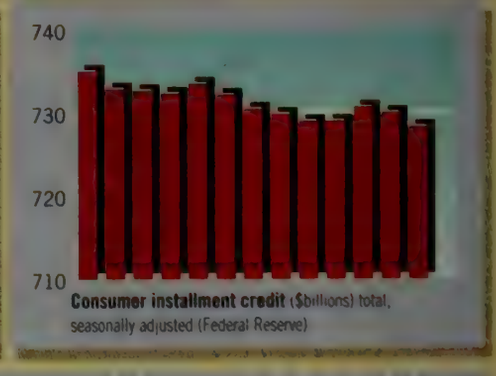
Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.







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Once part of the pride of U.S. industry, a shrunken Bethlehem Steel today lurches from restructuring to restructuring.

Faded glory

By Jerry Flint

BETHLEHEM STEEL CORP. has been restructuring for the last 17 years, long before anyone used the term. Most of you are too young to remember just how big Bethlehem used to be. In World War II, 300,000 worked for the company. Back then ships were the big business. Bethlehem built 1,121 in the big war, one a day: the troopships that took the Army to Europe, the LSTs that put them on the Normandy beaches, the carriers that beat back Japan.

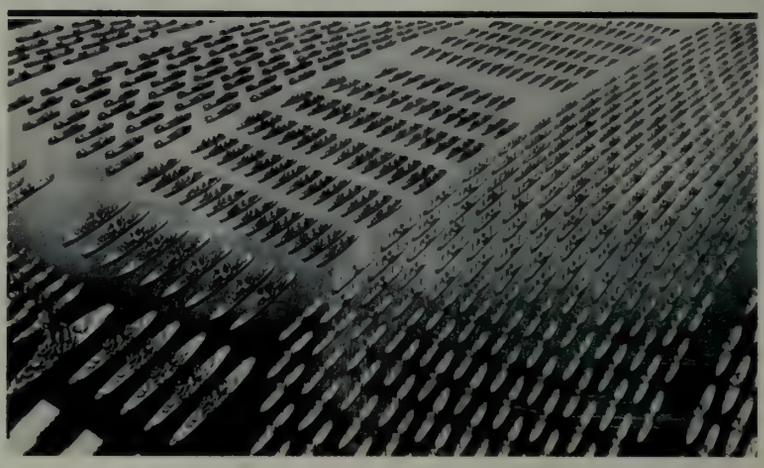
The shipbuilding is gone.

There were 150,000 workers in 1960, when Bethlehem was one of the world's great contractors. It built the George Washington Bridge in New York and the Merchandise Mart in Chicago, the Golden Gate in San Francisco and the Supreme Court building in Washington. They've restructured out of that, too.

Restructuring in steel began in 1975, but by last year Bethlehem had figured the restructuring was about done. Employment was down to 26,500, and Bethlehem had dropped from 38th place in size among American corporations in 1975 to 191st. Then came the recession.

So Walter Williams, chairman and chief executive, is restructuring again—more plant closings, more numbers on the pension list, more empty offices in the headquarters complex in Bethlehem, Pa., across the New Jersey line. Bethlehem is a landlord now: Dun & Bradstreet has twice Bethlehem's work force in the complex, and Union Pacific rents out three floors for its headquarters.

The steelmaker had 24 million tons of capacity 15 years ago and has 16 million tons today, more capacity than any other steelmaker in America. But that will be down to 11 million to 12 million tons by the end of next year. Yet 1991 shipments were only 8 million tons.



Thomas Iannuzzi

Thomas Iannuzzi

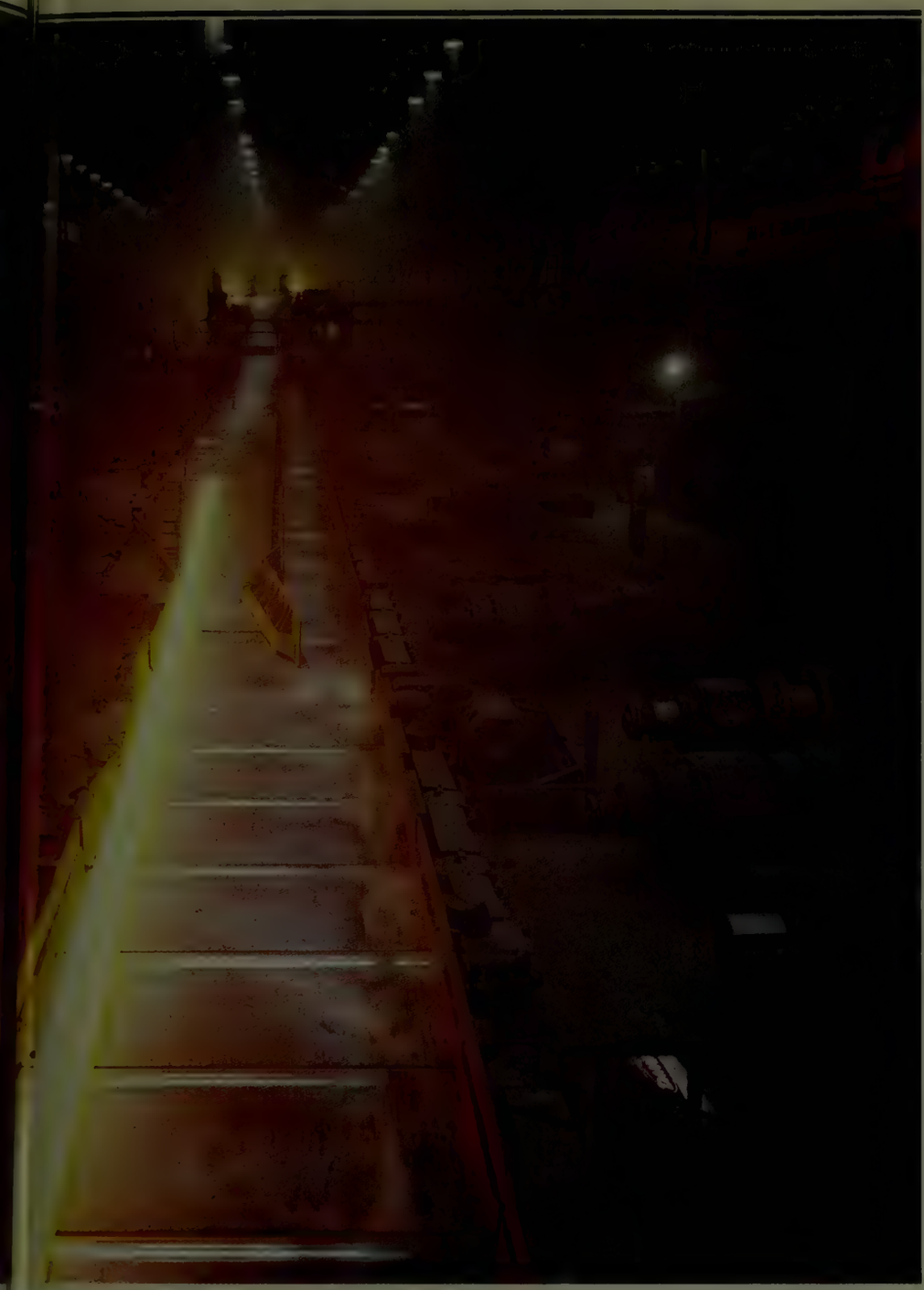
ABOVE: Bethlehem's fleet **1,121 built in the war, one a day.**
LEFT: Chief Executive Walter Williams
RIGHT: The rolling mill at Bethlehem, Pa. **Needed: heavy investment and a new labor-saving contract.**

Bethlehem's is the story of all business, American business in particular. Companies are created by entrepreneurs; they become big and bureaucratized and go into decline when they fail to adapt to the dynamics of change. Or they flail about as U.S. Steel and Armco did, diversifying into businesses they know nothing about. Maybe it was management's fault: didn't see the world changing, didn't keep up with technology or their customers, didn't fight the unions hard enough, didn't dump losing operations fast enough or diversify into other thoroughly modern materials.

"Why didn't we do more earlier?" says Williams. "If someone had walked in back then and said, 'Something's happening; we must cut our force by 35%,' we couldn't have done it. The culture wasn't there."

Bethlehem people believed in the old truths—in fact, they still do. They know that Mickey Mouse—Disney—replaced U.S. Steel on the Dow Jones 30 industrials, but it's hard to accept.

"There are two ways to produce wealth," says Williams. "Produce something with your hands, or take it out of the ground." But this is a world



where knowledge counts for more than hard materials and solid assets. How can computer software or filmed entertainment or marketing techniques make a country great? He is convinced that Americans are at fault because they aren't doing more to preserve their old industrial base, and that it is imperative that steel import restraints, which are expiring at the end of the month, not be allowed to lapse, since that would probably destroy another chunk of the industry. "I can't sit here and believe our country and government will allow it to happen," Williams says (and five will get you ten he's right, because it's an election year; bet on a stretch-out for the quotas).

Bethlehem is working down to four operations: Burns Harbor, Ind., 35 miles from Chicago, built in 1962, but that's new for an integrated steel mill; Sparrows Point, Md., which was bought by Bethlehem in 1916—but has had billions of dollars in rebuilding; the structural steel mill at Bethlehem; and the rail mill at Steelton, Pa.

Burns Harbor and Sparrows Point make light, high-quality steel, flat stuff, sheet and plate, the type used in cars and machinery. Productivity is high: 2.8 man-hours per shipped ton at Burns Harbor. Best in the world, says Roger Penny, senior vice president, who heads steel operations. Sparrows Point is around 4.5 hours. "Heading toward 4. That's driven by a slightly different product line. Give me a greenfield plant and we'd run close to 2.5 to 3 man-hours. Eventually we'll get there. After the next phase of investment," says Penny. Those two mill complexes account for 80% of Bethlehem's business.

The two smaller operations badly need about $250 million in new equipment and a new, competitive union contract. Neither will come easy. British Steel backed out of a joint venture plan for these two plants last year. Penny says Bethlehem considers these two integral to its plans, but they could possibly go if there is another restructuring.

Prices are terrible. Steel prices are below 1981's—steel is cheaper than Kleenex, cheaper than potatoes. ("With better quality than potatoes," says Gary Millenbruch, the chief financial officer.)

But hopes spring eternal. Given any kind of break—recession ends, prices firm—that all turns around, says Williams, who's 63 and back on cigarettes. "We can see 8% return on sales before taxes [and it will be a long time before Bethlehem pays taxes]. On $5 billion that would be $400 million [$5 a share] in an average year, some higher, some lower. This is the kind of target, if we had a target, that we would have." Every 1% increase in prices also adds $40 million to operating profits—50 cents a share.

So cash flow could be fairly healthy—$300 million depreciation and the $400 million in operating profits, and there's $700 million, says Millenbruch. This pays for $400 million capital spending and $100 million a year to knock down debt, with some discretionary income left over.

This had been a rich company, with things to sell, like coal mines and coke ovens and shipyards and freight car plants. There are plenty of those at Bethlehem, which was created in 1904 by Charles Schwab, one of Carnegie's top hands and U.S. Steel's first president. "If we are going bust, we will go bust big," Schwab said, when he gambled Bethlehem and won on a new type of I-beam. But that was in the company's entrepreneurial stage.

Could Schwab's late-20th-century successors have been more entrepreneurial, more venturesome? Probably. But then Schwab didn't have today's United Steelworkers of America to deal with. How much are the unions at fault? Labor costs are now about $31 an hour, but flexibility—the old work rules and overmanning—is the major issue. William Serrin, former labor writer for the *New York Times* and author of *Homestead*, a forthcoming book about the rise and fall of steel, says with considerable justice: "The union is like the company, as uncreative, as unimaginative, as blind as the companies that they have modeled themselves after."

Williams does little to dispel this view with his litany of complaints. He figures 100 million tons of overcapacity still exists worldwide, the capacity of the entire U.S. industry. Environmental rules cost the hard-strapped Bethlehem $50 million to $75 million a year. The nonunion minimills, using scrap as raw material instead of ore, have lower capital costs and much more freedom in manning levels, have 20% of the steel business, and like Schwab in the old days, with less at risk, are more willing to gamble on new technology.

Only five years ago Bethlehem was one of the hot plays on the Big Board, bottoming at 4 in December 1986. Four months later Bethlehem was at 12, eight months later it passed 18, and six months after that, 23. The common peaked at 28 in 1989 and recently traded around 15. A strong economy could give it another boost.

Right now there's not much sign of that. The fourth-quarter steel operating loss was $619 million; the year's loss with restructuring charges was $767 million, or $10.41 a share, which killed the dividend. The cash and credit line—mostly credit—is at $552 million, half what it was two years ago. Cross your fingers, hope for an upturn.

Well, there's one consolation, no matter how threadbare: Bethlehem, in its agony, just might overtake USX and become the nation's largest steelmaker. Decades ago this would have meant celebration. Today Bethlehem officials just shrug. When you are fighting for survival, you don't put much store in such trophies. ■

Bill Simon and Gerry Parsky were great personal friends, but their business partnership was a disaster.

When friends fall out

By John H. Taylor

FORMER Treasury Secretary William Simon and Los Angeles lawyer Gerald Parsky were close friends as well as highly successful business partners. Just last September Simon spent ten days at Parsky's 23-acre California estate. Formed in 1986, their WSGP group, which took its name from its two lead partners, had attracted investors ranging from Saudi royalty to European billionaires and had invested in such things as banks, real estate and manufacturing companies.

Yet ten days after leaving Parsky's home, Simon sent out a one-sentence fax to Parsky and other partners, saying he was withdrawing as a partner from WSGP. The abrupt resignation came just as WSGP was about to close a $300 million fund. When WSGP officials first saw the fax, they thought that it was a joke. It wasn't. By the end of the day the $300 million fund had collapsed.

Three more Simon allies with investments in WSGP deals—including Preston Martin, former Federal Reserve Board vice chairman—also left the partnership. And just last month Tokio Marine & Fire Insurance Co., the giant property and casualty insurer, said it was withdrawing from WSGP Partners and demanded half of its $100 million investment back. Parsky is scrambling for new partners.

Asked about his resignation from the firm, Simon is blunt: "I totally lost trust and confidence in Gerald L. Parsky and no longer wished to be associated with him either professionally or personally. This was not done in haste."

It was an unseemly ending to a close association. When Simon was secretary of the Treasury in the mid-1970s, he recommended that Parsky, then a promising but inexperienced attorney, be made the youngest assistant secretary in the department's history. Later Parsky became Simon's

Rick Kerrigan

LEFT: Former partner William E. Simon
RIGHT: Gerald L. Parsky
Says Simon, "I concluded that I had totally lost trust and confidence in Gerald L. Parsky."

point man in charge of international trade and investments, making extensive contacts with financiers in the Middle East, Asia and Europe.

After leaving government service, Simon and Parsky went their separate ways. Simon and Ray Chambers formed Wesray Capital Corp. and quickly earned a reputation as one of the country's savviest investor teams by making an estimated $400 million through a series of leveraged buyouts.

Parsky joined Los Angeles-based Gibson, Dunn & Crutcher, where he used his contacts from the Treasury days to convince foreign investors to make acquisitions in the U.S. and to work with U.S. corporations going abroad. During his 13 years with the firm, Parsky was credited with bringing in an amazing $80 million in billings.

In 1986, after Simon had a falling-out with Ray Chambers, he and Parsky formed a partnership with Los Angeles businessmen Larry Thrall, Roy Doumani and others, and began investing in real estate, banks and savings and loans.

In 1990 Parsky left Gibson, Dunn to run the day-to-day operations of WSGP Partners, the partnership with Tokio Marine. Later that year Simon sent his son William (Billy) Jr., now 40, to work in WSGP's offices. The senior Simon spent no more than a few days a month in the Los Angeles office, preferring to work on the East Coast and travel extensively. Parsky's friends say Billy kept a "Dad pad" for reports to his father. It was no secret that Parsky and the younger Simon did not get along.

Parsky's allies portray the elder Simon as a capricious man wracked by personal problems, including his estrangement from his longtime wife. They point out that this is the second Simon partnership that ended under difficult circumstances—the other with Chambers. Parsky says Simon resigned because Parsky would not make Billy a full partner. "Mr. Simon wanted the firm to be a family-controlled operation, and I couldn't agree," Parsky says.

But there was another aspect to the argument. Late in 1990 several WSGP principals received a memo detailing a long list of complaints by lawyers representing Saudi Prince Nawaf Bin Abdulaziz Al Saud, the 58-year-old half brother of King Fahd. Nawaf had been a client of Parsky's at Gibson, Dunn since 1977 and had been an investor in a host of deals put together by Parsky and other WSGP principals. Simon had served as his U.S. investment adviser since 1984.

According to a document prepared in connection with the complaint, Nawaf accused Parsky, Simon, Gibson, Dunn and the others of "self-dealing, undisclosed conflicts of interest, misappropriation, material nondisclosures and fraud." The most serious of Nawaf's charges was that Parsky had put the prince into a series of bad real estate deals without disclosing that Parsky himself or other Gibson, Dunn attorneys or clients owned pieces of some of the projects.

In one case, the prince bought some properties that Parsky had an ownership stake in, at a significant profit to the sellers. Parsky says that he made full disclosure to the prince and took no profits from that particular sale, though he refuses to produce the related documents, citing client confidentiality.

A settlement in principle—said to be at least $20 million—was reached last July. In the settlement, Simon, Parsky and the others agreed to buy back properties from the prince, repay certain loans the prince had made to them and give him increased stock—or the equivalent in cash—of a Hawaii savings and loan that WSGP principals invested in.

Parsky characterizes the settlement, which has yet to close, as a sincere effort to accommodate a disgruntled investor. Parsky says he has "no doubt" that he would have won the case if the prince had chosen to file litigation.

Did the prince's allegations lead to Simon's disillusionment with Parsky? Simon's allies equate the settlement with an admission of guilt, which they say destroyed their confidence in Parsky's integrity. As FORBES goes to press, three of Parsky's former partners have refused to contribute to the proposed settlement with Nawaf.

In a prepared statement, Thrall, Martin and Doumani declared: "We share Bill Simon's view that we never had any responsibility or liability to the prince."

Simon Jr. says that Parsky will pay the lion's share of the settlement. But Parsky denies this. Parsky's friends say that the real problem between Parsky and Simon was the younger Simon's ambition and his father's support of that ambition at a time when the father was having personal difficulties.

Take your choice.

Parsky is currently scouting for new investors, using his gold-plated card file. He has recruited a new team of investment advisers, including Forbes Four Hundred member John Anderson and Simon Ramo, former TRW Inc. vice chairman, to give the firm credibility.

Of former friend Bill Simon, Parsky says: "Sometimes I wrack my brain to understand how all this happened. It just doesn't seem possible." ■

By applying New England frugality to the entertainment business, Sumner Redstone has made a smashing success of his leveraged buyout of Viacom.

"I can't even remember the old star's name"

By Matthew Schifrin

"LISTEN TO THIS," commands MTV Networks' 46-year-old boss, Thomas Freston, searching a pile of fan mail from the rock music video channel's viewers. Freston reads:

"I am studying in Bombay. A month ago I bought MTV. And now I am addicted to MTV, so much so that I am neglecting my studies. I would love to listen to more heavy metal. My favorite band is AC/DC.
(signed) Clayton Rana"

"Cool," says Freston.

Parents and development economists may not find that letter particularly cool, but for Freston and MTV's owner, Viacom International Inc., it is music to the ears.

Just five years ago MTV was considered a fading asset. It belonged to Viacom when Boston multibillionaire Sumner Redstone acquired Viacom for his National Amusements, Inc. in a highly leveraged transaction in June 1987. Redstone's privately owned movie theater chain paid $3.2 billion, all but $500 million of it borrowed, to buy 83% of Viacom's public shares in a hostile takeover.

Viacom had attractive assets: cable systems with 1 million subscribers, mostly in California and the Pacific Northwest; TV and radio stations; and a lucrative television syndication division. MTV was targeted for quick sale by the company's bankers.

But Redstone, now 68, saw value in diversity. He hired former Home Box Office Chief Executive Frank Biondi and told him to develop Viacom's franchises, MTV included.

A smart call by Redstone, beautifully executed by Biondi. While most Viacom divisions are doing well, MTV Networks has emerged as the crown jewel. MTV Networks accounts for $411 million of Viacom's revenues, $162 million of its cash flow, and is growing more than 20% a year. Over 65% of revenues comes from advertisers like Procter & Gamble, Nike and Pepsi, the rest from subscriber fees.

MTV Networks includes three cable TV channels: around-the-clock music video channels MTV, aimed at 12-to-34-year-olds, and VH-1, for 25-to-49-year-olds; and Nickelodeon, now the world's largest provider of children's programming.

As the letter from Bombay indicated, MTV has become a global phenomenon. The channel is broadcast into 55 million U.S. homes and 32 million homes in Europe. In Latin America 24 million homes receive it. In Asia MTV recently began broadcasting via satellite to 1 million homes. International growth could push MTV's worldwide revenues to $1 billion by the end of the decade.

In short, Redstone got his money's worth in buying Viacom. That's in part because he runs it like a tightfisted New England businessman, not like a spendthrift Hollywood mogul. Viacom's headquarters are not at a posh address, but in leased space a few

John Abbott

LEFT: Viacom's Frank Biondi and Sumner Redstone **Most thought MTV was a fad, but they held on.**

Ren & Stimpy and Liquid TV **Rather than pay premiums for known talent, Viacom is creating its own.**

Thomas Freston, chief executive of MTV Networks
Like many of MTV's in-house talent, his background is unusual.

doors away from the seedy porn theaters of Times Square.

For Hollywood studios and television networks, costs have spiraled because the producers are at the mercy of talent agencies, high-priced writers and expensive production companies. Not so with Viacom. Virtually all programming is produced by its own employees with low-cost, homegrown talent.

For example, Steve Isaacs, 22, video jock and host of an MTV teen-oriented magazine-style show called *Like We Care,* was a Jungle Cruise skipper at Disneyland before joining MTV. Fab 5 Freddy, another host, was a graffiti artist in Brooklyn.

Freston himself spent eight years in Afghanistan and India, exporting designer clothes to stores like Bloomingdale's, before joining MTV in 1980.

So, too, in Viacom's first-run syndication business. The company's successful Phil Donahue-style talk show is hosted by Montel Williams—a macho, bald-headed former motivational speaker for the U.S. Navy, unknown before Viacom signed him up.

Redstone is determined to avoid the financial bad habits of Hollywood. Viacom's Biondi recalls a 1989 meeting with the star of one of Viacom's syndicated shows, *The Adventures of Superboy.* "Things were going well," says Biondi, "so the star's agent asked for a lot more money. So we said, 'Sayonara,' got a new Superboy, and now I can't even remember the old star's name."

Viacom's marketing is relentlessly targeted, unlike that of the big TV networks. "NBC, CBS and ABC are mass-consumption vehicles; a show for one can run on any of the others," says Freston. "We have a certain style, aestheticism and point of view."

Meaning that Freston stresses building the networks as brands rather than boosting an individual talent or program. Since MTV's viewers dominate the record-buying audience, MTV has been able to negotiate exclusivity contracts—at minimal cost—that give it first crack at playing most major record companies' videos.

With two music channels, Freston can air only a fraction of those videos. But new digital technology will soon allow MTV to split each channel into three channels. This will enable MTV to target its music programming to specialized audiences such as heavy metal and rap. This could further entrench MTV's power in the $7.5 billion record industry.

Viacom's Nickelodeon channel, too, plans to go international and could eventually be split into three channels. This will expand Viacom's ability to distribute films and TV programs from its library, including new cartoons and kids' shows.

Nor are Redstone and Biondi neglecting the lucrative licensing market. A slew of activity toys made by Mattel for Nickelodeon will hit the shelves this September. Also coming are a Nickelodeon magazine for children and a record label devoted to children's music. Both Nickelodeon and MTV plan to produce feature-length motion pictures.

Last year Viacom grossed over $1.7 billion. In a year when many media and entertainment companies suffered, Viacom's operating profits jumped 40%, to $312 million. For 1992 analysts estimate $480 million.

Soon after doing the LBO, Redstone sold two cable systems and stock in Orion Pictures. Using the proceeds, plus cash flow and funds from additional equity offerings, he has reduced its debt from $2.8 billion to $2.3 billion—often buying in its junk bonds. Viacom's cash flow could soon cover interest payments 2.5 times.

In the last several weeks Viacom International's stock has been strong, rising from $30 to $34. There is speculation that Viacom may take MTV Networks public. Recently a smaller cable network, Robert Johnson's Black Entertainment Television, went public at 15 times operating cash flow and soon rose to 20 times cash flow. At 15 times projected cash flow, MTV Networks alone would be worth $3 billion, making Viacom at current prices quite a bargain.

Morgan Stanley's Alan Kassan figures Viacom's other assets—the cable franchises, *Showtime,* the syndication operation and the broadcast stations—could be worth an additional $5 billion in market value. Yet at a recent $34 a share, the whole company, debt included, has a total capitalization of around $6 billion.

Here's one leveraged buyout that has been a smashing success for just about everyone concerned. ■

Having trouble making sense of the media's presidential campaign punditry? Try consulting the people who have their own money on the line.

Bush by several lengths

By Charles E. Babin

WORRIED ABOUT the potential impact of this fall's presidential election on your investments? Almost daily, constituents are bombarded with yet another campaign survey; for every poll there are often multiple interpretations. And even when the electorate speaks at the ballot box (the only poll that counts), there's always a lingering question.

Consider the New Hampshire primary. On the Republican side, it was George Bush over Pat Buchanan by a margin of 16 percentage points—yet in much of the media this was considered a major defeat for Bush. Is Paul Tsongas just a "regional candidate," even through he beat his nearest rival, Bill Clinton, handily?

In the media, confusion reigns as the various pundits interpret the results according to their preferences.

Fortunately, there's an alternative way to assess the election prospects of the various candidates. In Great Britain, where gambling is legal, Ladbrokes, England's largest gambling operation, makes book on a wide array of upcoming events, including U.S. presidential elections.

Are gamblers smarter than media sages when it comes to figuring elections? Say this for the gamblers: They have real money—their own—on the line. They are not just trying to look smart. They are trying to be right.

As I see it, the betting market is efficient. Arbitrage ensures that the odds reflect all known information. (Ladbrokes will not accept transatlantic telephone bets. But Americans on the scene or with friends in the U.K. can bet at any of Ladbrokes' 2,000 gaming shops, just like any Brit. And Ladbrokes will quote odds over the phone: 011-44-81-868-8899.)

Karen Starkey of Ladbrokes' public relations department says her firm has been quoting odds on the U.S. presidential elections since 1964, and has never been wrong in identifying which party would prove victorious, from the very first odds quoted on a particular campaign.

How are Her Majesty's bookies sizing up Campaign '92? The table below lists Ladbrokes' odds as of Feb. 25, after the New Hampshire primary and Maine caucus. As with financial markets, the safer the bet, the lower the potential return. As of now, Ladbrokes is saying that George Bush looks almost like a shoo-in. And the odds favoring his re-election were improving during the latter part of February.

In looking at the table, remember that successful bettors get back their original wager plus the payoff, called the "winnings." So at 4-to-9 odds, a $9 gamble that the Republican party will capture the White House in November stands to gross $13—that's $4 in winnings plus the $9 wager—for a 44.4-cents return on every dollar bet. An $8 bet on the Democrats (at 13-to-8 odds) would return the $8 plus a $13 payoff, or a 162% return on your money if the Democrats won—over 3½ times the return from betting on the Republicans.

While the Democrats may be fond of telling the media that George Bush is mishandling the economy, the punters are saying that the Republicans are nearly four times as likely to win as the Democrats.

The odds on individual contestants are also revealing. Want a long shot? There's Pat Buchanan. Since the New Hampshire primary, he has been asserting that his 37% vote count evidenced the viability of his candidacy as he flashed the *Manchester Union*'s "Read Our Lips" headline. But London's punters aren't all that impressed. Ladbrokes is currently willing to pay $33 for every $1 placed on Buchanan's nose.

Among Democratic contenders, Paul Tsongas isn't the front-runner among the betting crowd. A $1 bet on Tsongas to win the Presidency would win $6. That's a lot less risky than a bet on Bob Kerrey or Tom Harkin (both at 50-to-1) or on longshot Jerry Brown (at 100-to-1). But a Clinton wager would return $2.50 for every $1 risked—a solid indication that the Arkansas governor has so far survived the Flowers/Vietnam-draft attacks and is far ahead of Tsongas.

To each his own. You may have your favorite poll or your favorite pundit. Me, I'll take Ladbrokes. The outcome of a presidential election is too important to my investments to leave to amateurs.

The presidential betting odds

Wager: Which political party will win the U.S. presidency?

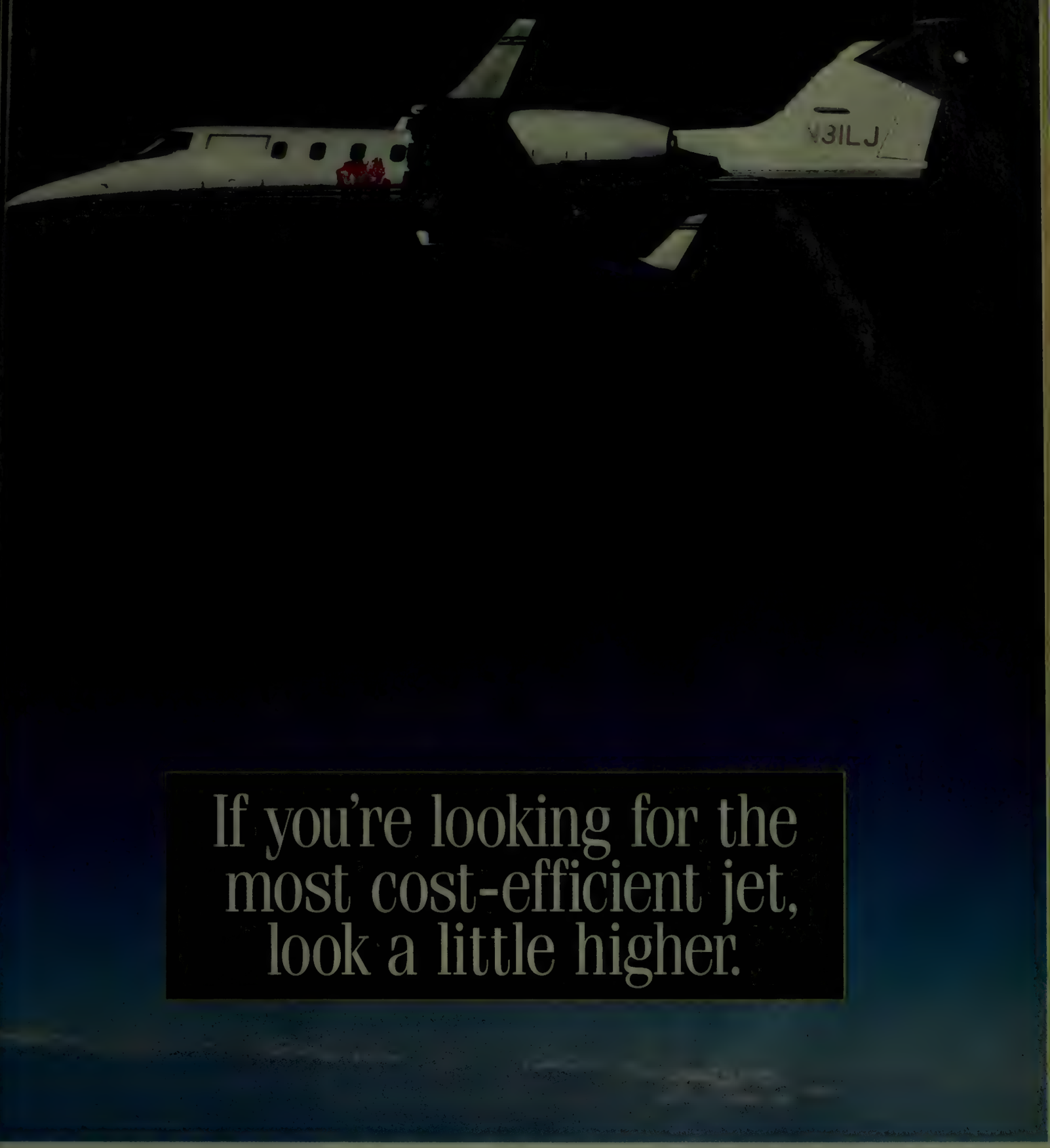
	Odds*
Republicans	4-to-9
Democrats	13-to-8

Who will be the next U.S. President?

Bush	4-to-9
Buchanan	33-to-1
Clinton	5-to-2
Tsongas	6-to-1
Kerrey	50-to-1
Harkin	50-to-1
Brown	100-to-1

*As of Feb. 25, 1992.

According to the betting odds in London, President Bush is the odds-on favorite to win the November presidential election. For every dollar bet on Mr. Bush, punters stand to win only about 44 cents.



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Looking for bargains in a high stock market and a low-interest bond market? Take a look at busted convertibles.

Convertible junk

By Warren Midgett

WHEN INVESTORS get really disgusted with the performance of a convertible bond, they become irrational, dumping it for less than its value as straight debt. That phenomenon creates opportunities for investors willing to invest in junk bonds. In effect, the buyer is getting a long-shot call on a common stock for less than nothing.

Marko Budgyk follows high-yield securities for Houlihan Lokey Howard & Zukin, a Los Angeles financial advisory firm with a sideline in bankruptcy consulting. He has a keen eye for junk bond values.

These days Budgyk likes a number of way-out-of-the-money converts. Convertible bonds, hybrids of fixed income and common stock, usually start out life with a strong equity flavor. The Anacomp 9s of 1996, for instance, were issued at par in 1981. Each $1,000 bond can be converted into 63.3 shares of Anacomp common. At the time the bonds were floated, that many shares of the common were worth about $850. A buyer might have looked on the bond as an indirect way to buy Anacomp common, paying $150 extra but in return getting $90 a year in interest. The common paid no dividend.

But rather than rise, Anacomp's stock (which still pays no dividend) has fallen, to 4⅞ a share. The conversion value of the bond is thus down to $309. This is what the trade calls a busted convertible.

Holders of busted converts sometimes sell them too cheaply. "There are some companies—Anacomp is one—where the convertible issues yield more than the nonconvertible debt of similar credit quality and maturity," says Budgyk. "That says a lot about how misunderstood this market is." At a recent price of $84 ($840 per $1,000 of face value), the Anacomp 9s yield 14.5% to maturity. That's an excellent yield for a company of this credit quality.

Budgyk also cites the convertible Burnup & Sims 12s of 2000, yielding 21.5% to maturity. Budgyk says the bond, stripped of the conversion right, should yield only 15%. Buyers, in effect, are getting a cheap bond and a free call on the common.

Beware: Many convertibles are junk bonds, standing well behind senior bondholders in a bankruptcy. In that case, Budgyk compares the convertibles with nonconvertible subordinated debt, if there is any, or with what nonconvertible junior debt ought to yield. Both the Burnup & Sims and Anacomp convertibles are subordinated to senior debt.

The Wang Laboratories' 7.75s of 2008 have a yield to maturity of 13.6% and are convertible into 19.2 shares of Wang common. The stock recently traded at 6¼. A conversion is highly unlikely, but Budgyk says the company's credit quality is too high for a 13.6% bond. The bond, recently quoted at $62, is worth more like $75. Budgyk arrives at such values in part by looking at the volatility of a company's common stock. The greater the volatility, the riskier the company's underlying business operations and the greater the chance the bonds will go into default.

The table shows ten convertibles that are attractive in Budgyk's scoring system. In the measure of credit risk, 1 is considered the lowest quality and 100 is the highest.

Budgyk has already bought many of these bonds for his firm's money management clients. In most cases he has also arbitraged away some of the risk by taking short positions in the common. That is, he will buy, say, $100,000 of the bond, then short a smaller amount (maybe $30,000) of the underlying stock. If the company does well, the bond position should gain in dollar value more than the short position loses. If the company deteriorates, he figures on making more from the shorted common than he loses on the bond.

Oversold?

Issuer/issue	Recent price	Yield to maturity	Credit score[1]	Required bond yield[2]	Estimated value bond[3]	Estimated value convertible[4]
Anacomp/ 9% of 1996	$84	14.5%	21	12.2%	$90	$93
Burnup & Sims/ 12% of 2000	63	21.5	10	15.0	85	88
Cetus[5]/ 5.25% of 2002	74	9.2	56	9.20	74	80
DSC Communications/ 7.75% of 2014	57	16.3	26	12.5	64	70
Maxtor/ 5.75% of 2012	45	14.0	27	13.0	49	55
Moran Energy[6]/ 8.75% of 2008	66	14.2	20	12.6	74	77
OHM/ 8% of 2006	70	12.5	20	12.5	70	76
Seagate Technology/ 6.75% of 2012	70	10.5	48	10.7	68	75
Wang Laboratories/ 7.75% of 2008	62	13.6	48	11.8	71	75
Zenith/ 6.25% of 2011	56	12.3	31	11.6	57	70

[1]Measures the percentile of credit risk of the issuer relative to the universe of debt-issuing companies. [2]An assessment of the fair yield of the issuer based on its credit score. The lower the credit score or ranking, the greater the credit risk and the higher the required yield. [3]Value of issue before consideration of convertibility feature. [4]Value of issue taking into account the estimated bond value plus the added value attributable to its conversion feature. [5]Convertible into Chiron common. [6]Convertible into Kaneb Services common. *Source: Houlihan Lokey Howard & Zukin Investment Management.*

All of these bonds have conversion features that add to their fixed-income values. Most are trading, says Marko Budgyk, at less than what they are worth as straight debt.

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January 1989: We decided the only way to reinvent our cars was to reinvent our company.

And that's what we did. Three years ago, we turned the company upside down. Inside out. We changed the company to change the way we make cars.

It's a whole new way of making our cars: platform teams.

It's a fundamental change in our way of working. In our corporate culture.

The Company has been organized into four platform teams–large car, small car, truck, and minivan. Each team is product engineers and manufacturing engineers, planners and buyers, marketers, designers and finance analysts in lockstep, talking together and working together.

Sharing responsibility.

It's not the old way: an engineer finishing his piece of the car and tossing the plan over the fence to the next guy up the line.

It's the new way: everybody working together to resolve all the technical problems beforehand. To make sure the designer's concept can be engineered and the engineer's plan can be built so that problems are solved up front and costly trade-offs downstream are eliminated.

Everybody focused on one goal: making a great car.

And what drives the system is the voice of the customer. The customer who is most likely to buy the particular product.

The result is better quality, lower cost and a reduction in the time it takes to get a product to market.

The result is a whole new way of making cars.

It's a new home for a new way of making cars: The Chrysler Technology Center.

It's the new guts, the new heart, the new muscle of our company.

The Center in Auburn Hills, Michigan opened officially October 15, 1991. And our platform teams have started moving in.

Not only will they be conveniently located to each other, but to all the tools they will need to do their jobs.

Electromagnetic and environmental labs, a wind tunnel and a test track. A pilot factory to test computerized manufacturing equipment, shops to hand-build prototype vehicles, and design studios. Even an education center. All the tools needed to make cars that are safer, environmentally responsible and more efficient. In all, 7,000 people will go to work at the Center.

Some people ask, "Why put a billion dollars in new real estate now?" The answer is simple. The Chrysler Technology Center is a long-term investment in a whole new way of working. And it will be worth every penny of it.

To us. And to you, our customer.

It's a company with a new record of getting from show car to showroom.

The original V-10 Dodge Viper made its debut in January 1989 at the North American International Auto Show in Detroit. The reaction from the public was instant and overwhelming.

And so was Chrysler's response. A study task force grew quickly into Team Viper–charged with bringing the car to market within three years. A world-class record for this country.

And so was born more than a new sports car: a more responsive product development process that dramatically cuts lead time and investment.

And so was born the prototype for organizing a whole company.

We predict our new cars will drive a new trend: cab forward.

In the fall of 1992 Chrysler will launch a new series of midsize cars. Cab forward cars: a concept that is based on restructuring the car, not restyling the car.

The base of the windshield is pushed forward over the front wheels. The rear wheels are pushed rearward. The width of the car increased.

From these simple changes are derived a whole series of important benefits.

The first is more room up front and rear for the driver and passenger. Another is the ability to engineer a signifi-

antly longer wheel base in a midsize car. Ride and handling are thereby improved.

The longer wheel base in turn allows for larger doors front and rear for easier entry and exit. Without sacrificing trunk space.

Exceptional aerodynamics, reduced wind noise and improved fuel economy are also derived from the cab forward restructuring.

But true uniqueness is derived from the quality of the total car: the quality of the driving experience.

Cab forward will become a new trend. Just because it makes so much sense.

It's a company with achievements to build on.

It's a company with dominance in important aspects of the business.

The most significant is the Chrysler minivan. We gambled on a new idea only we believed in. And America loved it. And three million minivans later we're still improving them. Making them safer, more functional and friendlier for the American family.

Everybody knows we bought Jeep®, the gold standard for four-wheel drive, not just in this country but around the world. Our new Jeep® Grand Cherokee will create new standards for all sport utility vehicles.

We reintroduced an old idea, the convertible, to a new generation. We turned fun into a big business. And everybody jumped on the bandwagon.

The American public thinks of us as warranty leaders with good reason. We believe we started a trend in warranty improvement across the board to the benefit of all consumers.

All our plants are new or refurbished. But no automotive plant in America will be more socially responsible or technically proven than our newest, Jefferson North, in the heart of Detroit.

Building something new is good. Having something to build it on is better.

Our dedication to safety started an industry trend.

Most people know that Chrysler is the only car company that puts driver-side air bags on every passenger car it builds in the U.S.*

They may not know we are the first with a minivan driver-side air bag† That the minivan has an available built-in child restraint seat and rear-seat shoulder harnesses. Even anti-lock brakes and all-wheel drive are available.

As a matter of fact, anti-lock brakes are available on 80% of the vehicles we build. More models than Toyota, Honda and Nissan combined.

And everybody should know we have invited the industry to join us in making safety a top priority.

For the benefit of all consumers.

And by the way, while we were busy changing the company, we took three billion dollars out of costs.

As someone said, we wrote the book on survival in the 80's. In a recession you get lean. Fast. We've also demonstrated when the cycle turns up, you make money. Lots of it.

The Company has literally been transformed for a different marketplace. The 90's: a tougher, faster, more competitive time and place.

How did we get out the three billion dollars?

By taking a long, hard look at every procedure in our company, and mapping out every step in those procedures. It has to add value, improve quality, and serve the customer better—or we get rid of it. We found we could eliminate at least 50% of the steps. In some cases, 90%.

That's called lean production. It's the best way to get everybody focused on one of the goals: cutting costs.

We asked for suggestions and we got them. Streamlining spare parts handling alone saved 100 million. We cut 100 million from our medical expenses.

We instituted a new way to deal with our suppliers as equal partners in the design process. The result: improved quality, lower costs. The result: 135 million in savings.

The trick is to cut the fat without cutting the bone. And we've done it all without jeopardizing our 16.6-billion-dollar five-year new product plan.

No company has more experience at operating with our backs to the wall. But we do what we have to do to compete. That has been our history.

And that will be the key to our future.

It is a more competitive company for a more competitive time.

Chrysler Corporation in the course of the next five years will provide competitive new cars, trucks and minivans. A new Dodge Viper, followed by a new Jeep® Grand Cherokee. And in the fall, the new cab forward sedans from Dodge, Eagle and Chrysler.

In this business you lead, follow or get out of the way. We intend to lead by providing the ultimate advantage: getting better quality products at lower cost to the marketplace faster.

For the benefit of a more competitive Chrysler.
For the benefit of a more competitive America.
For the ultimate benefit of a more satisfied customer.

Lee Iacocca

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Tim Horne worries about putting people to sleep when he tells them what his Watts Industries does, but a look at the company's profitability should jolt anyone awake.

Valve jobs

By Norm Alster

AS CHAIRMAN, chief executive and controlling shareholder of Watts Industries, Inc., Timothy P. Horne has spent $160 million to buy 19 product lines and companies since 1984. He does a lot of flying. Predictably, his airline seatmate gets around to asking him what he does. When Horne says he's in the valve business, the first response is, "Oh, you make heart valves?" No, says Horne, and his seatmate then asks if he does valve jobs on auto engines. Eventually, Horne explains that he makes valves that regulate the flow of water, steam, oil and gas, among other liquid materials. With that his seatmate usually loses interest and falls silent.

A boring business, flow valves—unless you're interested in high profitability. In that case 118-year-old Watts Industries, of North Andover, Mass., is one of the more exciting companies around. Since 1977 Watts' aftertax earnings have compounded at 21% a year and should come in at $35 million (about $2.60 a share) for the fiscal year ending June 30. Revenues: about $415 million. Taken public in 1986 at $16 a share, Watts' stock currently trades at 50.

Michael Carroll

Watts Industries third-generation chairman, Timothy P. Horne
"There aren't a whole lot of layers of decision makers here."

Founded in 1874 to make valves to control steam pressure in the textile plants of neighboring Lowell and Lawrence, Mass., Watts nearly fell victim to the great southward migration of New England's textile industry. Tim Horne's grandfather bought the firm in 1918 and gradually built a new base of customers for valves that control the flow of water into residences and businesses. Watts valves, for example, reduce water pressure on pipes delivering water into the home and relieve sudden pressure and temperature buildups in hot water heaters.

When Tim Horne took the reins from his father in 1978, he was 40 and Watts' sales were $40 million. Determined to free Watts from its dependence on commercial and residential construction cycles, the young man decided to acquire makers of different kinds of valves. "I started feeling the waters in the early Eighties," he says, "by making calls, getting in to meet these entrepreneurial types that were way past retirement and had no family heirs, family companies that had fights, widows." To assist him in scouting and making deals, Horne hired Charles W. Grigg, who had made acquisitions for British Tire & Rubber (BTR, Inc.). Grigg is presently Watts' president and chief operating officer.

To each acquisition Horne brought a clear financial mind and a strong balance sheet. But, more important, he brought a deep understanding of the valve business that came from having worked for his father in Watts' foundries and metal machining plants, as well as in sales and customer service. Says Odell Frier, who sold his KF Industries to Horne in 1988: "He [Horne] can walk through a machine shop and know the cost of every piece of equipment in his plant."

Horne enjoys another advantage: iron-fisted control. Watts' two-class stock structure gives Horne control of 85% of Watts' voting stock. "There

A promise that being away from work won't feel like being out of work.

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2r

aren't a whole lot of layers of decision makers here," he says.

Some deals fell right into Horne's lap. He picked up Spence Engineering in 1988, after learning that the last living daughter of the steam valve manufacturer's founder had died and the company would be sold for estate reasons. For others he waited years. He had unsuccessfully courted Tampa-based Leslie Controls, a supplier of valves to the U.S. Navy, in the early 1980s. No dice then, but Horne asked for a chance to make an offer if Leslie ever decided to sell. In 1989 Horne received a call telling him that Leslie was for sale. Later he found that he was one of just two parties to receive a prospectus. He closed the deal within several months.

In scouting targets, Horne came across many thinly capitalized family firms that were underachievers for lack of capital investment. He bought KF Industries, a maker of valves used in oil and gas pipelines, because he felt he could improve operations with newer factory equipment. After modernizing KF's manufacturing with new machine tools, Watts has boosted the division's sales from $17 million to $40 million in three years.

Horne doesn't shirk slashing payrolls. Since acquiring Leslie Controls in 1989, he has cut 50 jobs out of roughly 350. When Watts last year acquired Bailey Controls, a division of CMB Industries, a small California company that also sold valves to the Navy, it retained just one of 50 employees, folding Bailey into Leslie's growing Navy contractor business. (Leslie valves go into submarines and figure in the steam-powered propulsion systems that boost planes off aircraft carriers.)

The essence of valvemaking is metals casting and machining, and Watts does its own casting, in its own foundries. "Our mind-set," confesses Horne, "is: We want the profit the subcontractor is making."

With all its acquisitions, Watts sails close to the edges of antitrust law. So far only one deal—the 1989 Leslie buyout—was temporarily held up by the Justice Department. But Watts President Grigg concedes that future acquisitions might get harder looks from the trustbusters. "We have to be careful," says Grigg, who adds that

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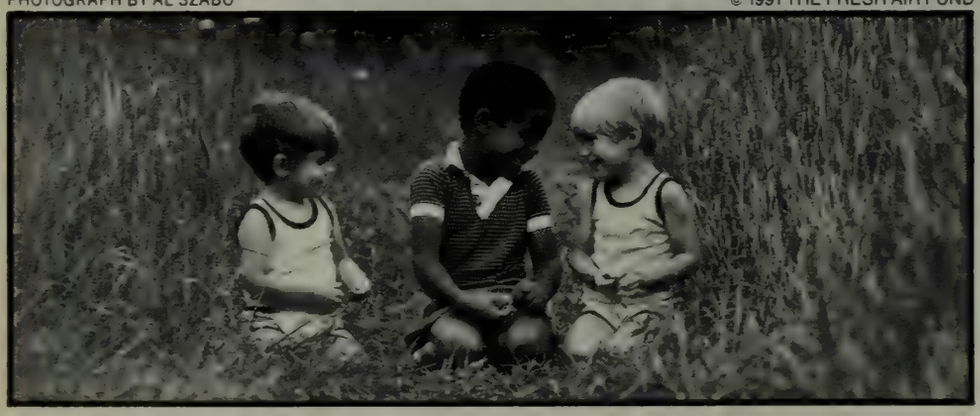

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Watts has eschewed acquisitions in the residential plumbing and heating sectors, which it already dominates.

Further forestalling antitrust problems, Horne will step up the buying pace overseas; he hopes to increase Watts' international business from 14% of sales today to 25% by 1995.

Financing the company's acquisitions poses no problems. Buyout prices, says Horne, generally come down to a multiple of earnings—usually around 10. Yet Watts' stock sells for around 20 times earnings. Most sellers want cash. Hence, Watts raised nearly $36 million—much of it earmarked for acquisitions—in a secondary stock offering last year. "We're raising cash at 18-to-20 times earnings," Horne glows, "to make acquisitions at 10 times earnings."

Horne, now 53, predicts that Watts' sales will top the $1 billion mark before he steps aside, probably at the end of the decade. Charles Grigg is in line to take control of operations, but not of the company: Horne directly owns 1,425,000 shares and beneficially owns a total of 5,598,000 shares of Watts' Class B stock, each share of which carries ten votes for every one vote that is carried by each of Watts' more than 7 million Class A shares. The market value of Tim Horne's stock: roughly $75 million.

To keep control in the family for as long as possible, Horne and his father George (now 78) will put some of their Class B stock into a charitable remainder income trust. This provides a tax deduction and enables the family to avoid estate taxes, as well as the capital gains taxes a stock sale would trigger. The stock can sit there for 20 years under the Hornes' control; after that the shares can be shifted to a private charitable foundation for another five years.

Why go to all this trouble when Horne, with 85% of the voting stock, has far more control than he actually needs? In his hunt for acquisitions, Horne has seen many a family company falter as control slips from strong hands. "Once it starts to go down, that's not so good," reflects Horne. "We have a good situation." Anyone smart enough to have bought into Watts when it went public can say the same. ■

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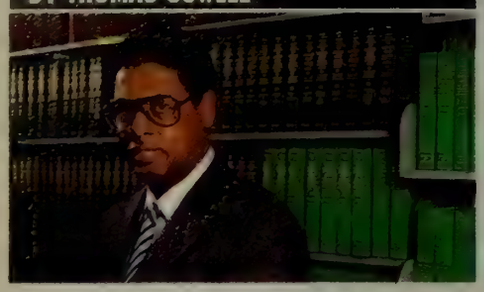
Figuring how to pay people what they deserve is a task beyond the capacity of anyone, but there are those with the hubris to cast themselves in that role.

What price "fairness"?

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

THE PRESENCE of megabucks executives from the American automobile industry was only one of the embarrassments of President Bush's ill-fated visit to Japan. However, those executives and their multimillion-dollar salaries set off a media flurry about big salaries in general.

In an era when a baseball player hitting .220 expects to earn more money than the President of the U.S., and when a basketball star earns more than all the teachers who have taught him from kindergarten through college, questions about big incomes may be understandable.

Does anybody deserve such huge incomes? What about the poor? Don't they deserve more?

Such questions—and many others like them—presuppose a standard which does not exist and an authority which does not exist to apply such a standard. We could, of course, create such an authority, but it would be a totalitarian monster whose arbitrary edicts would have us all at its mercy. Nothing could stop it from snuffing out our freedom, not just in economic matters but in other matters, for its control of our livelihoods would mean its control of us.

Behind many "income distribution" questions is a fundamental confusion that goes back at least as far as the Middle Ages. This is the notion that goods and services have some "real," "true," or "just" value, which third parties can determine. The doctrine of "comparable worth" is the clearest contemporary expression of this medieval fallacy.

Where executives—or congressmen—determine their own salaries and benefits, there is of course a question of conflicts of interest, but that is an institutional problem to be confronted. What really sets off moral denunciation, though, are long strings of zeroes in a salary or income, regardless of what institutional process produced that end result.

Even if such incomes are a result of the freest and most open competitive bidding, many will not like it. It seems to them unjust.

The very fact that economic transactions take place shows that there is no objective "real" value. The seller sells because he values what he gets more than he values what he gives up. But the buyer buys for exactly the same reason. If there were some objective, fair or just price, economic exchange itself would make no sense.

As for giving people what they deserve, that would be a task beyond the capacity of anyone other than God on Judgment Day—or those with the hubris to cast themselves in that role.

Productivity may be measured in the marketplace, but the personal efforts that produced that productivity are not known to any other person. There may be singers who worked harder than Pavarotti to develop their talents, but who just didn't end up singing as well. Perhaps Einstein just had an inborn ability to do abstract thinking and Babe Ruth an inborn ability to hit a baseball.

We will never know—nor does it matter, if we are rewarding results. It is only when we imagine that we can reward "merit" that we are on dangerously thin ice.

The collapse of academic standards in our public schools has been partly due to the notion that teachers can grade students according to how well they did relative to their own individual ability—not according to the same norms being applied to everyone.

The sanctions of our criminal justice system have also been undermined by the illusion that we can "individualize" sentences according to the criminal, rather than sentence according to the crime itself.

A man's reach should exceed his grasp, but presumably not by light years. Yet, when it comes to income differences or other inequalities, few reformers seem to pause to ask what the limits of our knowledge are, or how that might limit how much equalization we can accomplish.

Income statistics as of a given moment always show large inequalities, but studies that follow the same individual over time show most people moving up and down from one income bracket to another. One study at the University of Michigan showed that 6% of those in the bottom bracket one year were in the top bracket the next year. Many of us would like to know how they did that.

Income inequalities are not even half the story of disparities among human beings. The difference between a factory worker and an executive is nothing compared to the difference between being born brain-damaged and being born normal, or the difference between being born to loving parents rather than abusive parents.

Even assuming that economic equalization policies work according to plan—unlike so many other social policies—how much of the total inequality or inequity will be eliminated? Is a 10% reduction in inequalities worth putting a whole society through social traumas? Are not these traumas, inflicted on innocent people, another injustice themselves? ■

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Masco spent almost $2 billion to get into the furniture business. Bad timing? Perhaps. But good strategy.

Resetting the table

By Rita Koselka

IN THE EARLY 1980s Richard Manoogian took a hard look at Masco Corp., the company his father started in 1929, and which he took over in 1968. He didn't like what he saw.

Masco was in two cyclical businesses: building supplies and automotive parts. Not great prospects for growth in either, Manoogian decided. So he began to reinvent the Taylor, Mich.-based company. First he spun off Masco's auto parts divisions in 1984 as Masco Industries, a $1.5 billion (1991 sales) public company in which Masco Corp. retained 45% equity.

Then Manoogian put Masco into an entirely new (for it) business: furniture manufacturing. Starting in 1986 with the acquisition of industry leaders Henredon and Drexel Heritage, Manoogian has spent a total of around $1.5 billion acquiring ten furniture companies, and another $250 million upgrading their manufacturing facilities and investing in new marketing programs. Masco now has 8% of the $14.5 billion U.S. furniture market, almost as big a share as the next two manufacturers (Interco and La-Z-Boy) combined. About $1.4 billion of Masco's $3.1 billion in 1991 revenues came from furnishings.

Why furniture? Several reasons. Whereas sales of Masco's building supplies are affected by housing starts, furniture sales are more dependent on sales of existing homes: People like to redecorate after they buy. Moreover, the portion of disposable income spent on furniture rises as a person ages, not inconsequential in a country with an aging population.

Most important, Manoogian saw in furniture a fragmented industry to which he could bring badly needed capital and marketing knowhow, and enjoy the fruits of scale economies.

The furniture industry is characterized by a large number of small, thinly capitalized family firms that often suffer from long delivery cycles. When it acquired Lexington Furniture in 1987, Masco found a six-month backlog of dining room and bedroom furniture on order. To fill the orders more quickly, Lexington needed four computerized routing machines—at $250,000 each. Manoogian promptly spent the $1 million and Lexington delivered the furniture in about half the time.

Eric Smith

Masco's Richard Manoogian **He's got a comfortable seat for these tough times.**

As a result of Manoogian's aggressive acquisition program, Masco now covers all the furniture price points except for the low end, which it has eschewed. It has also acquired several leading fabric companies, such as Robert Allen, as well as accessories makers. This gives customers a broad and well-coordinated choice of home decorating looks. Open almost any fashion or design magazine and you'll see glossy pictures of plaid dressers and big leather chairs—Ralph Lauren's expensive ($7,000 for a leather armchair) interpretation of chic country homes and hunting lodges. Manufacturer: Masco's Frederick Edward. For a less well-heeled buyer, Masco's Lexington Furniture makes a similar Timberlake chair—price, $2,000.

Manoogian, 55, has used this one-stop-shopping approach to win some attractive contracts. In 1991 Masco was awarded a $75 million, three-year contract to supply furniture to the U.S. State Department for embassies and ambassadors' residences. Masco also won a contract to furnish four of the six hotels that are part of Walt

Disney Co.'s Euro Disney park.

Inevitably, as he has brought economies of scale to bear on the fragmented furniture industry, Manoogian has stepped on some toes. "A lot of the industry is sitting back and waiting for them to fall on their asses because they don't understand this business," says Ric Jedrziewski, a Salt Lake City interior designer.

Many smaller furniture retailers, in particular, wish Manoogian would go away. Furniture retailing is as fragmented as furniture manufacturing. Relationships between retailers and manufacturers are entrenched in complex tiers related to price and exclusivity arrangements. Masco has tried to rationalize these arrangements, which scares already beleaguered retailers. But there isn't much they can do about it. Business now is slow. And since 1978 over 30% of the country's furniture retailers have folded, says Wallace Epperson, an analyst at Mann, Armistead & Epperson.

Masco's merchandising future lies with strong regional furniture retailing chains such as Atlanta's Haverty Furniture or Warren, Mich.'s Art Van stores. Manoogian says these chains appreciate the advantages of his one-stop-shopping approach.

Bottom-line time: How are Masco's furniture operations performing? At first glance the answer is not terribly well. With overall industry sales contracting since 1988, Masco's furniture group's operating earnings came to just $80 million, on sales of $1.4 billion last year—an operating margin of only 6%, nowhere near Manoogian's goal of 15%. "The recession," says furniture group President Ronald Jones, "has put us behind our plans by two years."

Nor did Masco's building supplies division pick up the slack. With 1991 housing starts the lowest since 1945, operating earnings from building products were $273 million last year, on $1.7 billion in sales, an operating margin of 16%. Over the last decade Masco's building products' operating margins have averaged around 21%, over twice the industry average.

For the company as a whole, Masco's reported 1991 earnings were an anemic $45 million, its third straight year of declining earnings. On the other hand, Masco's furniture group has been gaining market share from competitors such as Interco, which is now in Chapter 11.

For now Masco has no option but to sit tight, waiting for the upturn. Citing the enormous operating leverage in Masco's building products and furniture-making businesses, analyst Stephen Dobi of Smith Barney expects Masco's earnings to hit $3 a share in 1994, compared with a reported 30 cents in 1991 after nonoperating charges relating to Masco's equity investment in its affiliates, including Masco Industries, the automotive parts maker. (Manoogian hopes to reduce Masco Corp.'s interest in Masco Industries sometime this year.) The stock was recently trading at around 27, valuing the company's equity at $4 billion.

For his part, Richard Manoogian, whose family still owns around 2% of Masco Corp., says he has few doubts that the diversification into furniture will eventually bear fruit. "We were a little overconfident," he acknowledges. "But if we had to do it over again we would, because what was important was getting the right companies, and we did. They might not have been available later." ■

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OLD PROS ON A NEW TEAM

Like the emerging countries of Eastern Europe, Pet Inc. is finding independence a powerful motivator for success.

On their own

By Seth Lubove

OVER TWO YEARS AGO Miles Marsh, now 44, had reason to believe he'd made a big mistake leaving a fast-track job as head of Philip Morris' General Foods, U.S.A. unit to become president and chief operating officer of $2.4 billion Whitman Corp. Marsh had been at Whitman three months when its chief executive, Karl Bays, died. The directors passed over Marsh to choose Amoco Vice Chairman James Cozad as Bays' successor.

But Marsh got his top spot anyhow. Whitman, a perpetually evolving Chicago conglomerate built on the base of the Illinois Central Railroad, reorganized again. The board spun off Whitman's Pet Inc. packaged foods unit to shareholders last April, naming Marsh chairman.

Whitman now owns muffler king Midas International, a Pepsi bottler and Hussman Corp., a maker of refrigeration systems. Pet owns Whitman's Chocolates, Progresso Foods and Old El Paso Mexican foods.

Marsh and Pet have hit the ground running. For the six months ended Dec. 31, Pet's net income jumped 34%, to $61 million, on sales of $975 million. For the fiscal year ending June 30, analysts figure Pet will earn around $110 million ($1.02 a share), up 27%, on sales of $2 billion.

An obvious reason for the spinoff was that it would encourage the stock market to ascribe a higher value to the food business than it was willing to grant a conglomerate. That's exactly what happened. At a recent price per share of $22, Pet's stock is valued by Wall Street at a multiple of 23 times trailing earnings, placing it in the same rank as packaged food outfits Campbell Soup and ConAgra. Thus, the owner of 100 shares of Whitman, worth $2,625 in April 1991, now has 100 shares of Whitman worth $1,525 and 100 shares of Pet worth $2,225.

Like the newly unshackled countries of Eastern Europe, Pet has learned independence is a lot better than serving distant masters. "One myth about Whitman was that there were synergies involved, and the truth is there were none," declares Cozad.

But there were potential synergies in the acquisitions within the food industry. From 1985 to 1990, Whitman had Pet buy 14 companies, in-

cluding Van de Kamp's frozen seafood, Orval Kent, Progresso Foods, Las Palmas sauces and Primo Foods of Canada. The acquisitions put Pet into the big league of packaged food companies. Sales more than doubled, from $882 million in 1985 to $1.9 billion in 1990.

But the synergies could not be realized without spending big money. With little money for national advertising and with spotty distribution, Pet's brands suffered. Old El Paso's Mexican foods were popular in the Southwest and on the West Coast, for example, but not as popular on the East Coast. Conversely, Progresso soups were big sellers on both coasts, but little known in between.

Mark Katzman

Pet Inc. Chairman Miles Marsh **A piquant end to his bumpy ride to the top.**

Such marketing budget as there was was devoted not to brand advertising but to trade discounts and promotions. Put another way, Pet "pushed" its goods on consumers with store displays and coupons, rather than attempting to "pull" with advertising. In 1988 and 1989 Pet devoted 90% of its marketing budget to promotions. It was a strategy defined, as it were, by the limited money available. But it did not have the makings of a major food company.

Marsh, a native South African with a Ph.D. in finance from Northwestern, describes the situation in his dry way: "What was happening was new volume was being bought through acquisitions. As they were bought, there was a requirement to cover the debt. What we've done now is to flip the coin. We won't acquire significantly for a while. Therefore, we can afford to put more of our money toward developing the products."

Under Marsh, Pet is beginning to balance out the mix. Old El Paso, Progresso and Van de Kamp's were advertised on national television for the first time this fall.

As frenzied as the old acquisition strategy seemed, it was fairly well concentrated in specialty niches such as ethnic and health foods, avoiding direct competition with the big food companies. And it was innovative in parlaying its strengths. Pet came up with the idea of placing Mexican foods together on the supermarket shelf—the "wall of yellow," after the color of the packages—whereas before, refried beans, for instance, were located in the bean section, jalapeños in the condiments section and so on. With a market share of 25%, Old El Paso dominates the supermarket Mexican food brands. It's a fast-growing, highly profitable segment that produces margins as high as 20%, versus average margins of around 15.5% for all of Pet's grocery line.

The toughest battle in the slow-growing $15 billion frozen food business right now is being fought among the makers of entrées: Heinz, Kraft, ConAgra. Here again, Pet avoids the fray by focusing on things like frozen pie shells and waffles. In waffles, a $450 million market, Pet's Downyflake brand holds a strong number two market share behind Kellogg. Pet is the market leader in frozen pie shells, with a 60% market share, and is trying to expand its presence further by giving away recipes that show how to use pie shells for things other than dessert: pot pies, for example.

A major problem area for Marsh is Pet's Whitman's Chocolates unit. The quintessential American boxed chocolate, Whitman's was almost synonymous with Valentine's Day. But time and competing boxed chocolates seem to have passed by this 150-year-old drugstore staple. Marsh hopes to treat this ailment with support for the stronger chocolate products, including more advertising. "I think its image has been left to its own devices for a while," says Marsh.

Another problem is Orval Kent, purchased in 1988 for $153.5 million in cash and notes, plus assumption of debt. Orval Kent sells bulk refrigerated salads to retailers and restaurants. Pet figured that Orval Kent would be a way to tap into the growing food service business. The difficulty: With little brand loyalty, restaurants and retailers usually go for what's cheapest, often from regional firms. Analysts say that Orval Kent could go on the block if things don't shape up.

When Pet was spun off last April, it borrowed $670 million to repay advances and distribute a special dividend to Whitman Corp., its former parent. Thus, Pet began life as an independent company with $825 million in debt, over 60% of total capital. Marsh has paid $71.6 million of that debt; the rest should not be a serious burden. Analyst Roger Spencer of PaineWebber figures that Pet's cash flow is sufficient to pay down debt by $75 million to $80 million in each of the next three years—reducing interest expense $5 million to $6 million a year—without cutting into promotion and advertising money.

Infused with an entrepreneurial spirit, Pet's managers say they feel like they're working for a new company. Says William Korab, president of Pet's grocery group and a 24-year veteran of General Foods: "It's our company. It's us. If something goes wrong, someone else didn't do it. We did it to ourselves."

More bad news for department stores: Their lucrative cosmetics business is fleeing to discount retailers.

Save $35 on Chanel

By Gretchen Morgenson

FOR DECADES department stores were just about the only place where prestige cosmetics and fragrances could be had. Estée Lauder, Elizabeth Arden, Chanel and Christian Dior refused to sell their eye shadows, skin creams and scents to mass marketers for fear of ruining their brands' highbrow appeal. Instead they paid high fees to get their products on the ground floors of stores like Saks Fifth Avenue and Neiman Marcus.

This was good for the brands' images. It was great for the department stores, which often took in 25% of their gross profits from cosmetics and fragrances, while devoting just 10% of their footage to the trade.

The party is almost over. Discounters have crashed the scene. Two of the biggest in the business: the Cosmetic Center, Inc., a Savage, Md.-based outfit with 37 stores, and four-year-old Perfumania, Inc., a 73-boutique operation out of Miami.

At Perfumania, you can get a half-ounce bottle of Chanel No. 5 perfume for $90. It's $125 at Macy's. A Cosmetic Center salesgirl will sell you a $30 (list price) Elizabeth Arden moisturizer for only $20. In both places, you can browse happily, without being bothered by a clerk, or ask for help if you need it.

The discount cosmetics boutiques do not, as the department stores do, assault their customers with battalions of perfume spritzers. At a Cosmetic Center store a small sales staff mans the prestige makeup and fragrance counter; the rest of the store is self-service. A recent visit to a store outside Washington, D.C. found shoppers six deep at the cash registers.

Ilia Lekach, 42, chairman of $85 million (1992 estimated sales) Perfumania, says Christmas was a blockbuster, with same-store sales gaining 28%. His stores continued to show big gains through January, usually a dead time for fragrance, with same-store volume up 20%.

Perfumania, which situates stores in outlet malls, went public in December at 8½; the stock recently traded at 18⅜.

Cosmetic Center sold $88 million in discounted fragrances, cosmetics, shampoos and soaps in its fiscal year ended last September. Stores, set up in strip malls, are glitzy and well laid out. In its December quarter the company's sales increased 17%, while earnings rose 11%. Its shares have more than doubled over the past year, to a recent 12¾.

Why aren't the producers simply cutting off supplies to the price cutters, as they would have done not too long ago? Because they can no longer afford to pass up that growing population of consumers who want the expensive brand but not the expensive retailer. These are the same people who drive BMWs but haggle with the car dealer, or who insist on KitchenAid's best dishwasher but drive out of their way to get it for $150 less at an appliance discount house. Clothing, camera and television manufacturers have been catering to these types for years, either by willingly selling to discounters or by opening their own "outlet" stores (FORBES, *May 27, 1991*). It was only a matter of time before cosmetics joined the game.

There was always, of course, an alternative for consumers who were thoroughly price-conscious. A shopper unwilling to pay $18 for an Yves Saint Laurent lipstick at Nordstrom

Bill Wax

Ilia Lekach of cosmetics and perfume discount chain Perfumania
His success spells more trouble for department stores.

could get a Coty lipstick at a drugstore for $4.85. But stores like the Cosmetic Center offer the tempting alternative of prestige brands at somewhat less than prestige prices. Its 6,500-square-foot stores stock 25,000 items, including almost all of the very expensive perfume, cosmetics and skin treatment brands.

There are still some holdouts. Officially, Estée Lauder and Chanel say they don't sell to discounters, but their products, secured through shadowy intermediaries, are there on the shelves alongside everyone else's. Although managements of these stores strenuously deny it, Saks, Macy's and Bloomingdale's sell goods that they buy from cosmetics manufacturers to wholesalers out the back door, according to industry sources.

Why would department stores do this? A department store buys perfume and cosmetics at about 40 cents per dollar of retail list price, including the effect of advertising and other allowances. The store can unload the merchandise on the gray market at 50 cents per dollar of list price. This is known as diversion.

The manufacturers could crack down on such gray-market sales by tracking codes printed on boxtops. But many aren't cracking down. The discount outlets have gotten too large. And if the manufacturers discovered that the department stores are indeed supplying the gray channels, what could they do about it? If Calvin Klein drove its perfumes off the shelves of Perfumania, it might succeed only in chasing some shoppers away toward Lancôme and Chanel. So it may choose to look the other way, while telling the department stores that it doesn't condone the discounting.

Other manufacturers have thrown in the towel and sell directly to discounters. Perfumania's Lekach explains: "Let's say you're Caron Fragrances, a fine name but a medium-size company. You sell in Bloomingdale's but it's impossible for you to make money there. What do you do? You stay in a few department stores for your image, but really sell elsewhere." Just one more reason that Macy's and Federated shouldn't have done those highly leveraged buyouts. ■

Did you miss out on the big money made on U.S. government bonds last year? You may have a second chance in foreign government bonds.

How to play foreign yields

By Robert Lenzner

FORTUNES WERE made last year as the yields on short-term U.S. Treasury bonds plunged. Speculators borrowed huge amounts of money at 5.75% and invested the proceeds in short-term Treasurys paying 6.81%. As interest rates tumbled, prices skyrocketed and killings were made. (FORBES, *Nov. 25, 1991.*)

These days a lot of smart money is hoping to repeat the trick in foreign bonds. In the last six months U.S. investors have poured billions out of U.S. Treasurys and into the sovereign obligations of Spain, France, Italy, Denmark, Germany, Japan, Australia, New Zealand and Canada.

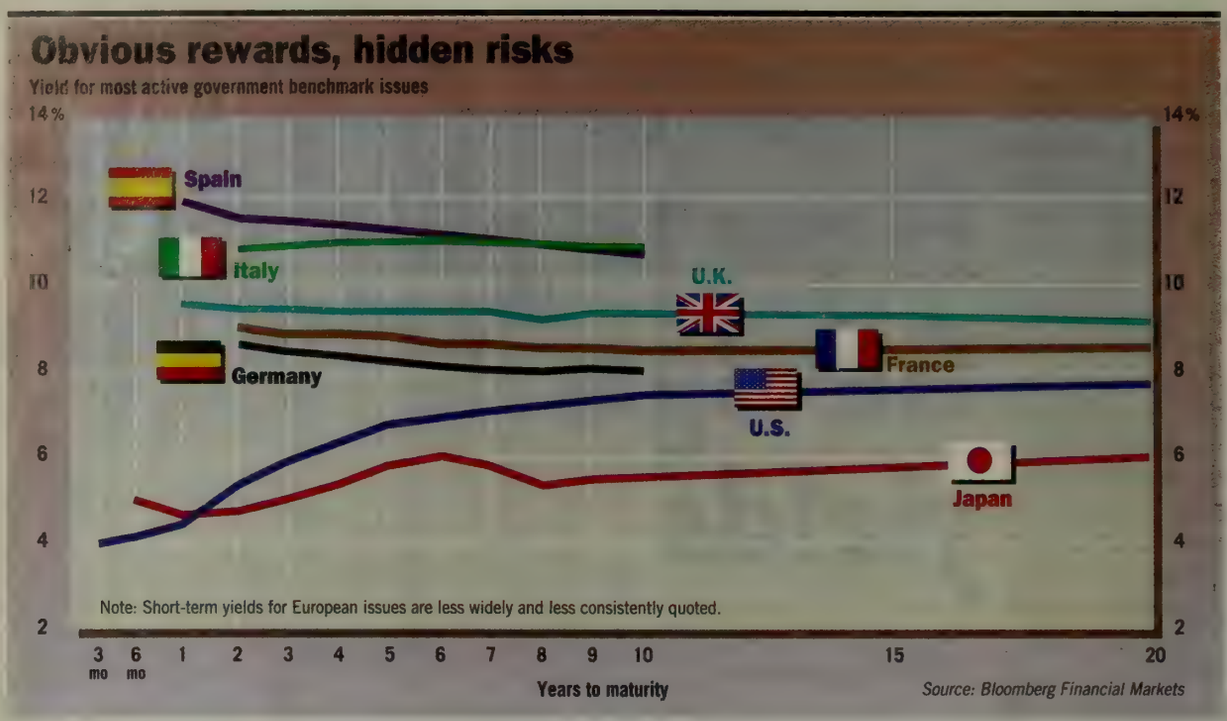
These investors are taking advantage of the yields available in Europe and some other financial capitals that are substantially higher than the coupons in the U.S. Look at the chart on the following page. A five-year French government bond currently yields 8.83%. A five-year U.S. Treasury yields 6.63%. So simply by switching from a dollar bond to a French franc bond, an investor picks up 220 basis points of additional yield.

But that's not all. The French yield curve is currently inverted; that is, medium-term money costs more than long-term money. A ten-year French government bond now yields 8.5%, 30-odd basis points less than the five-year bond. Inverted yield curves are not normal, so it is a good bet this gap will vanish—meaning there's a good chance to earn capital gains on the five-year bonds. If the yield on a French five-year bond dropped to 7% by year-end, the price of the bond would probably increase by around 6.3%, for a total annualized return of about 16%. For speculators buying on, say, 10% margins, that could represent a near doubling of their equity.

You don't get this kind of potential return without taking risks. The risk here is not just that interest rates might go up instead of down. There is the added risk in currency fluctuations. Unhedged, currency volatility can seriously erode returns on unleveraged investments and wipe out investors who speculate on margin.

"Whether to buy foreign bonds isn't a one-decision investment, it's a three-decision investment," cautions Stuart C. Hochberger, senior vice president of Fiduciary Trust Co. International, which manages over $10 billion in foreign fixed-income assets.

The first decision, Hochberger explains, is based on the interest rate. Judged solely on these spreads, European government bonds look great to U.S. investors today. Italian ten-year bonds yield 10.95%, compared with 7.38% in the U.S., while ten-year Spanish governments pay 11.03%, Swedish governments offer 9.59%, French governments 8.5% and Danish governments 8.57%. Because most European yield curves are currently flat or inverted, the differentials in medium-term bonds are even greater.



A. Christie/Forbes

On yield alone, European government bonds look attractive. But, cautions Fiduciary Trust Co. International's Stuart C. Hochberger: "Whether to buy foreign bonds isn't a one-decision investment, it's a three-decision investment."

The second decision depends on an investor's views on where various countries' interest rates are headed. If a foreign economy is headed for a slowdown, lower interest rates and rising bond prices are likely. Some very smart people think this condition is favorable, too, right now. Morris W. Offit is the founder of Offitbank, a New York-based trust bank and investment management firm. Predicts he: "Foreign bond yields will decline for the rest of the year because European central banks want to protect the value of their currencies and continue to introduce anti-inflationary policies that will slow down their economies." That, he explains, is why they tend to have inverted yield curves. The central banks are suffocating their economies by raising short rates.

The third decision is the currency question, and whether an investor should hedge against adverse currency swings. Fiduciary is bullish on the Japanese yen and the French franc this year, so Hochberger has been buying French and Japanese government bonds without hedging against the possibility that the franc or yen might fall against the dollar.

Among Offitbank's favorite holdings are Eurofima 12⅛s, due in 1995. Eurofima is a European railroad consortium; its debt is guaranteed by the member nations. The yield is high because interest and principal are paid in Italian lire. Offit thinks the lira will hold up well against the deutsche mark and isn't hedging the currency against the deutsche mark—nor, for that matter, against the dollar. In a similar move, he has bought Electricité de France 12⅛s, due in 1995. They are guaranteed by the French government; interest is payable in lire.

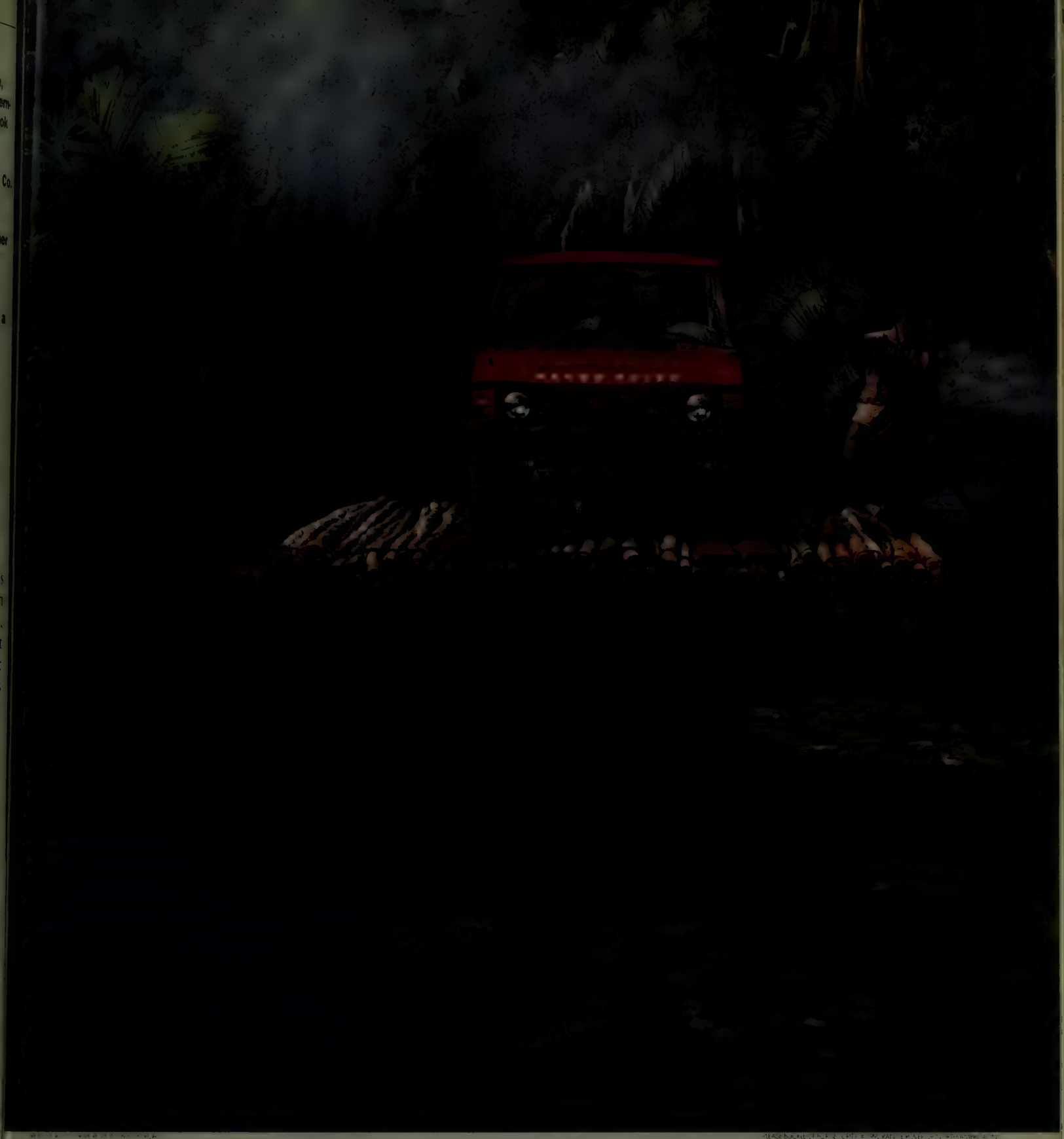
Another of Offitbank's big positions: Kingdom of Denmark 9% bonds, due 1995. "These bonds should benefit from Danish inflation's being lower than German [1.7% versus 4%] and a stifled economy," says Leslie Ashburner, head of global fixed income at Offitbank. He considers the Danish krone one of the strongest currencies in Europe today.

Complicated? A lot more so than picking a good stock and sitting with it. But the profits have been enormous. Fiduciary claims its global bond fund, a mix of foreign and U.S. bonds, has produced a 16.6% rate of return over the last ten years, which was greater than the return available on an index of U.S. bonds. Offitbank claims it has earned over 18% a year for the past five years in just foreign fixed-income securities. Investors who want to play the global bond market without the sweat and the risk can try mutual funds. But the profits may be more modest (and the losses less painful) because most mutual funds hedge against currency fluctuations.

The ranks of appropriate funds are growing rapidly. Alliance Capital's Short-Term Multi-Market Trust is 50% invested outside the North American continent and yields 7.8%, almost twice the yield on equivalent wholly U.S. money market funds; it already has $6.3 billion in assets and is receiving around $7 million in new money every day. Alliance's newer Multi-Market Strategy Trust holds securities with maturities up to five years and is weighted: Italy, 13%; Sweden, 8%; Spain, 10%; Australia, 7%; and Canada, 24%. This fund currently yields about 9.7%, well above a U.S. Treasury bond of similar maturity. In both funds, Alliance Capital hedges the European currencies, thus minimizing any currency risk.

Other investment companies with funds specializing in foreign government bonds include Scudder, T. Rowe Price, Templeton, Putnam and Fidelity. Like Alliance, Fidelity Global Bond Fund can hedge European currencies; it also invests in the government securities of Mexico and other developing countries to capture yields far higher than those available in the industrialized countries.

Both Offitbank and Fiduciary Trust are looking for 15% plus returns, measured in dollars, in 1992. But if the U.S. economy recovers and the dollar appreciates versus foreign currencies, they will have to be plenty nimble to make those returns. The volatility of the dollar is the Achilles' heel of the global bond market.



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LAND-ROVER RANGE ROVER

Jack Goldstein has done a great job of steering OMI from the verge of bankruptcy. Can the ocean shipper now weather the storms ahead?

Strong hands at the helm

By James Cook

WHEN Jack Goldstein, then 47, took over as head of New York's OMI Corp. six years ago, the $680 million (assets) shipping company was about to report a $27 million loss. And maybe worse. "We had a company," recalls Goldstein, "close to bankruptcy."

OMI was originally Ogden Marine, a subsidiary of Ralph Ablon's Ogden Corp. conglomerate. Ablon decided to spin Ogden Marine off to his shareholders in 1984, and loaded it to the gunwales with debt. This while the ocean shipping market was awash with excess capacity and most of OMI's fleet was coming off long-term charter with little chance of renewal.

In the rough-and-tumble shipping business, Jack Goldstein seemed an unlikely choice to save the day. An M.A. in economics from New York University, he'd had little direct operating experience. But he had spent 15 years as chief economist, doing operational and investment planning, with Overseas Shipholding Group, one of the largest and best-run companies in the business.

Once in command, Goldstein quickly sold $50 million in new preferred stock. He used the proceeds to retire some of OMI's high-cost debt and to begin rebuilding OMI's badly tattered fleet.

One of his first deals was a beauty. In 1986 he acquired a three-year-old ultralarge crude carrier, the *Settebello*. She had been contracted for but never paid for, so Goldstein took her off the builder's hands for $15 million, about equal to the *Settebello*'s scrap value. His timing was perfect. The shipping market was beginning to turn. Within two years Goldstein was able to sell a 51% interest in the ship to Norway's Bergesen group for $23 million. Today Goldstein figures the *Settebello* is worth three or four times what he paid for it. "As an asset manager, you should always be looking at selling when the market is high," says Goldstein. "You sell one, two or three ships and, when the market's weaker, you repurchase them."

Two years ago, for instance, OMI sold the first of three ships it had on order from Mitsubishi Shipbuilding in a joint venture with Norway's Anders Wilhelmsen at a $15 million profit. Last year Goldstein sold the first of three double-hulled product tankers it had on order from Chinese yards for $50 million, a $12 million profit.

Goldstein bought as well as sold. In 1990 OMI acquired the East Asiatic Co.'s 50% interest in another joint venture called Rubicon Tankers, for $52 million; the deal affected six tankers and added $8 million in revenues to last year's operations.

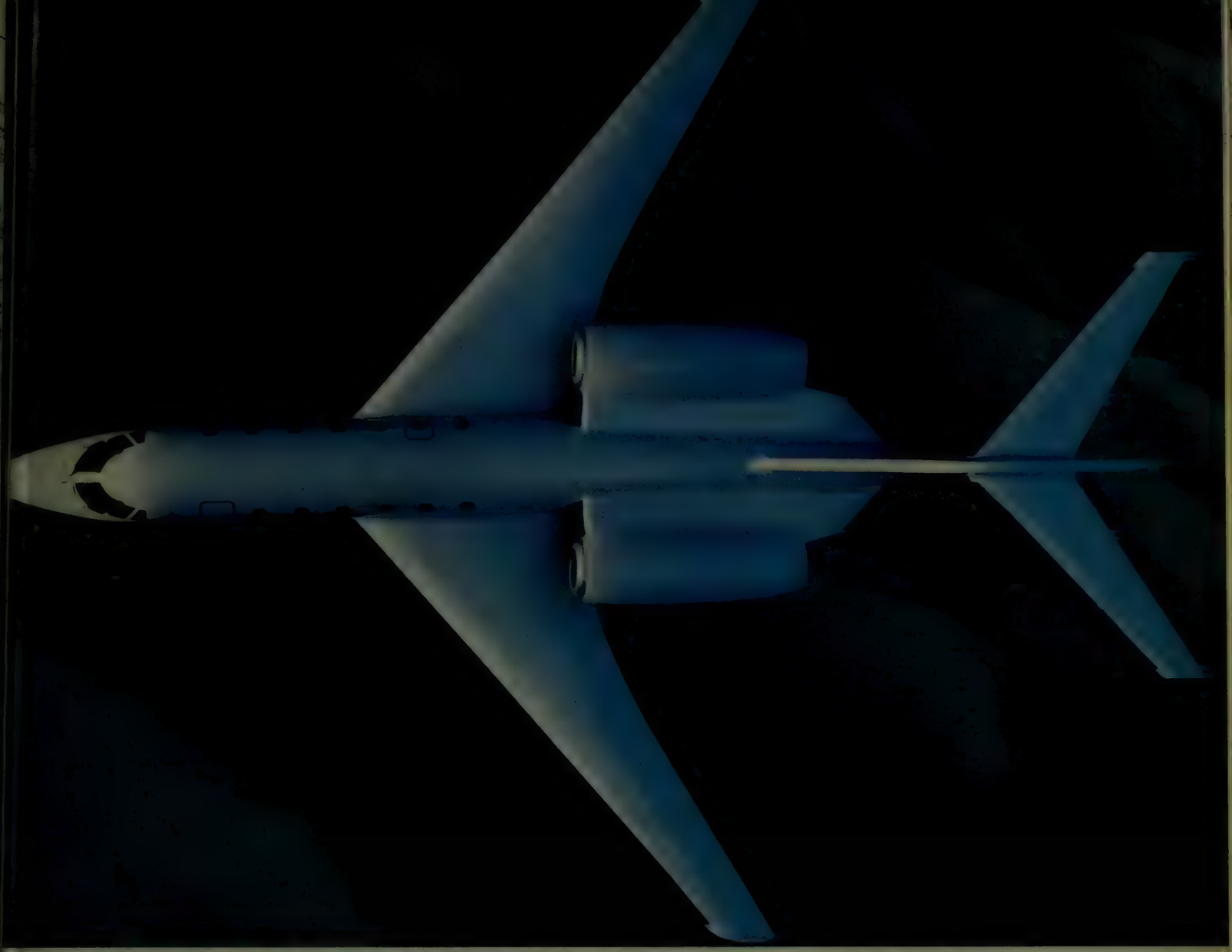
"These joint ventures give us a worldwide reach that is unusual," Goldstein says. "We spread the risk, we stretch our capital, and we get expertise in areas where we may be weak." Among others, OMI now has joint ventures with Hvide Shipping in chemical carriers, with Italy's Ecolmare in pollution cleanup vessels and with Hong Kong's International Maritime Carriers in dry bulk carriers.

Goldstein has also been

Jeffrey Vock

OMI skipper Jack Goldstein and a joint-venture products tanker

Spread the risk, stretch the capital, get the expertise.



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moving the company beyond ocean shipping, acquiring an 88% interest in Petrolink, a firm that provides lightering services to large tankers in the Gulf of Mexico. He has acquired a management firm that manages 12 vessels for the U.S. Navy, and a 14% interest in Chiles Offshore Corp., an oil rig drilling company.

Altogether, OMI now operates a fleet of 42 ships, 27 of them crude and product carriers. A third are U.S. flag carriers; the rest sail under various foreign flags. When the market is ripe, Goldstein plans to split off the international operations into a separate publicly owned, OMI-controlled European company. The separation makes operating as well as financial sense: Thanks to antiquated laws designed to protect U.S. shippers, OMI's U.S. and international fleets serve largely distinct markets anyway. As it is, foreigners can own no more than 25% of a U.S. shipping firm's equity, limiting OMI's financial flexibility.

Goldstein seems to have made all the right moves. Since its brush with bankruptcy in 1986, OMI's revenues have climbed nearly 65%, to $277 million; earnings last year came in at a healthy $29 million (76 cents a share). Meanwhile, the company's common stock has gone from 3 3/16 in 1986 to a high of 11 7/8 in 1990, versus around 7 currently.

As that stock market performance suggests, there is currently little optimism over how OMI will fare in the rough seas immediately ahead. Mabon Securities' analyst James Winchester predicts a 15% decline in per-share earnings (excluding proceeds from any ship sales). Furman Selz's James Dowling has predicted a decline of at least 7%.

OMI's "Columbia"
The fiscal horizon is cloudy.

The horizon is indeed cloudy. Thanks to the cutbacks in defense spending, the Navy has already declined to renew two of the five charters it had outstanding. And commercial tanker rates have weakened as the recession has put a damper on oil demand. With seven OMI vessels coming off charter in the first half of this year, Goldstein may be hard put to match the 24% gain in new charter rates he managed in the first nine months of last year.

Where it can, OMI has tried to put its fleet under one-, two- and three-year time charters, rather than go for the potentially more lucrative spot market rates. This way OMI misses the high rates the spot market can yield, but it misses the low ones, too.

Whither OMI? Goldstein declines to go out on a limb, but between the lines he's cautiously upbeat. "Sure, a lot of what happens depends on the oil market," he says, "but a lot also depends on what you do with your business." What Goldstein has done so far with OMI speaks well for the company's ability to weather the storms immediately ahead.

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My story—Michael Milken

Stephen Johnson

As told to James W. Michaels and Phyllis Berman

A FEW YEARS ago the most powerful man on Wall Street, Michael Milken, 45, is now in federal prison, having pleaded guilty to violations of the securities laws. To the media he has become a symbol of everything that was wrong in the Eighties—greed, manipulation, disruptive hostile takeovers, the S&L losses. A *Wall Street Journal* editor has written a bestselling book, *Den of Thieves,* which places Milken at the center of a criminal conspiracy.

Our crook-sniffing equipment is sensitive and we can usually smell a phony a good way off. We do not believe the conspiracy theories. Milken was ruthless and sometimes grasping, but we have seen no evidence that his legal transgressions were other than of the relatively technical variety to which he has pleaded guilty. None of these illegalities even remotely accounts for the man's astounding success.

This native Californian, a Berkeley and Wharton graduate, arrived on the scene in the late 1960s at a time of

turmoil in the credit and securities markets. With penetrating insights, 15-hour workdays and almost unbelievable powers of concentration, he built a medium-size Philadelphia brokerage firm—which became Drexel Burnham Lambert—into the terror of Wall Street. He dealt with some nasty characters, like Ivan Boesky and Victor Posner and Meshulam Riklis, but from his trading desk in Beverly Hills he also raised billions of dollars for Turner Broadcasting, MCI, Time Warner, Medco, McCaw Cellular and Rupert Murdoch's enterprises.

Even Milken's detractors should admit that he and Drexel played major roles in closing the gap between public and private market values during the 1980s. As the Dow Jones industrials climbed from under 1000 to nearly 3000, several trillion dollars was added to the net worth of consumers and investing institutions.

If you think Milken was ambitious beyond sense and reason, what follows probably won't change your opinion. But self-serving or not, many of his observations ring true. Read with an open mind and you will almost certainly learn a great deal. We know we did. Mike Milken and his accomplishments are no more to be ignored because he broke some laws than Richard Nixon is to be ignored because of Watergate.

We twice interviewed Milken face-to-face at the Federal Prison Camps at Dublin, Calif., where he is serving a ten-year term. Wearing a blue baseball cap and a green sweater over a shirt and blue jeans, he looked trim and fit, but his dark, angular face showed strain and despair and bitterness. Our interviews took place in the canteen of the minimum-security prison, a place of cheap plastic-topped tables and bare wooden walls. As we talked, other prisoners came and went, paying scant attention to the reputed billionaire and his visitors. These interviews were supplemented by scores of telephone conversations over four months—Milken, incongruously, speaking from a pay phone on prison grounds.*

Wherever possible we verified his statements with people involved, and in most cases the statements checked out. We emphasize, however, that the version of events is largely Milken's and may not agree with other people's.

FORBES: The lawsuits that have tied you up for over five years seem near a final settlement in federal court.
Milken: I want to get on with the rest of my life. A settlement, even if it involves suits that have no merit, is a step in that direction.

You've been in jail going on a year now, and unless your appeal for reduction of your sentence succeeds, you face a couple more years in jail. How do you feel?
I miss my family terribly. I'm trying to stay healthy. But despite this torture I'm going through there's some comfort knowing the things my detractors are saying are wrong.

The book *Den of Thieves* portrays Michael Milken as the leader of a gang that used junk bonds to plunder businesses and investors out of tens of billions of dollars. The heroes are poor-but-honest and selfless federal prosecutors plus Martin Siegel, the handsome dealmaker who repents his misdeeds—while, not incidentally, providing lots of material for the author. Great melodrama, and it satisfies the public's need for a villain to blame for the turmoil of the 1980s.
The book's dust jacket says, "Once upon a time. . . ." That's how you start fairy tales, and the book is a fairy tale. It turns night into day and day into night.

The author betrays total ignorance about U.S. financial markets and even more so about specific Drexel transactions. He never met me or talked to me.

But you did deal with the crook Boesky.
It was obviously a terrible mistake ever doing a single trade with him. But people forget that in the 1980s Boesky was celebrated by the media. Just about every investment house on Wall Street dealt with him, and those that didn't mostly wanted to. In 1986 Boesky was the commencement speaker at Berkeley's business school graduation exercises. Everyone thought he was a great arbitrager and wanted his business. But he was only a tiny part of Drexel's business.

Despite what *Den* suggests, I've never traded or divulged inside information in my life.

The *Den* book makes a great deal of a $5.3 million payment Boesky made to Drexel in 1986 and says it was a split of profits from insider trading. If there was no insider trading, what was that payment for?
Boesky never wanted to pay for Drexel's services—among other things for advice on possible acquisition candidates for his Northview holding company. He was notorious for never paying his bills. Drexel finally insisted that he pay up.

According to your statement to the court: ". . . I transgressed certain . . . laws. . . . One of the accounts we did business with was the Boesky Organization. . . . certain of our transactions involved reciprocal accommodations, some of which violated the law . . . I assisted in the failure to file an accurate 13D . . . I promised we would make up any losses the Boesky Organization suffered on its purchases and sales [of MCA]. . . . This promise was not recorded on Drexel's books nor made public and it was wrong not to do so."

When you pleaded guilty to violating securities laws in these respects, you told Judge Wood: "My [guilty] plea is . . . not a reflection of the underlying soundness and integrity of the . . . capital markets in which we specialized. . . ." You meant junk bond financing made sense, even though you personally transgressed?
When I spoke of the soundness and integrity of capital markets, I was referring to a lot more than high-yield bonds. I pleaded guilty to specific actions. I'm ashamed of those actions, but I'm proud of most of what we accomplished at Drexel. We were matching capital to entrepre-

*Milken had thought that by the time this article appeared Federal Judge Kimba Wood would have ruled on his appeal for reduction of his ten-year sentence. However, the ruling has taken longer than expected. Milken, therefore, asked us to postpone the article. This FORBES declined to do.

neurs who could use it effectively. We were creating investments that money managers needed in volatile markets.

A lot of people think that what you accomplished was to make billions of dollars out of paper-shuffling that contributed nothing to the business of America.
That's just one of the many myths about me.

One thing that is certainly a myth is that junk bonds were your only business. In 1987 and 1989 FORBES quoted you as saying it was time to deleverage, to get out of debt, to sell common equity. A lot of people ignored that advice.
After 1986 I felt like a skilled surgeon who's been locked out of the operating room and watches through the glass in horror as some first-year medical students go to work on a patient. They're cutting him open while referring to textbooks, but they're turned to the wrong chapter.

I keep pounding on the glass and crying, "No, no, no."

"No, no, no" to what?
No to leverage. By the end of the 1980s Wall Street was financing deals in ways that made sense a few years earlier but no longer did.

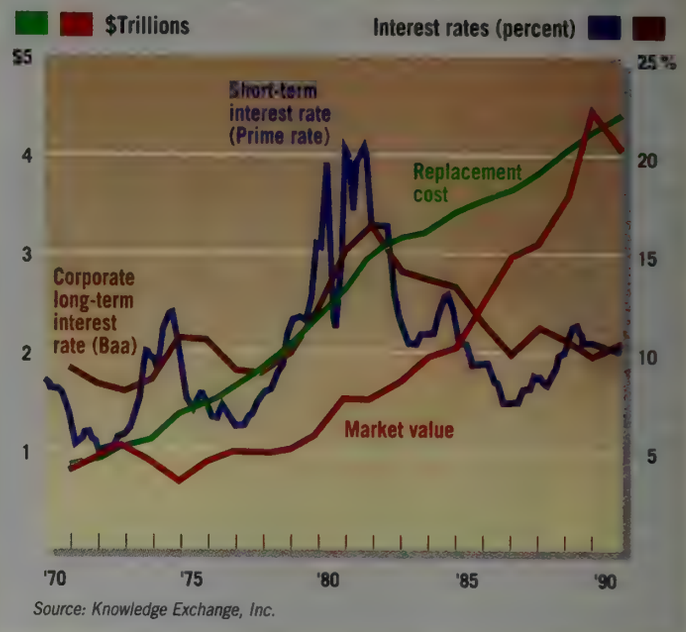
What made you decide when it was time to deleverage?
Look at this chart. In the mid-1980s stocks were relatively cheap. Even though the market was rising, most stocks were selling at discounts to replacement value and even to book value. In those circumstances it was cheaper to buy assets than to build. It was the ratio of stock prices to underlying values that led to the stepped-up acquisition activity. It wasn't bank debt and junk bonds. Junk bonds had been around forever.

As the chart also shows, by the end of the 1980s, with some exceptions, valuations had risen very high by historical standards. But even after stock prices had trebled, Wall Street kept structuring deals that didn't make sense at the higher prices. It's okay to leverage to buy underpriced assets. It isn't okay to leverage to buy overvalued assets, particularly when cost of capital is in the double digits.

Prices had gotten so high in the late 1980s that the winning bidder was often a loser. Especially since it should have been clear that a capital crunch was coming.

The gap had been closed between private market value and stock market prices.

When leverage was okay



Source: Knowledge Exchange, Inc.

Through most of the 1980s it made sense to borrow to buy assets. By the late 1980s, the rationale was gone.

Not only that. U.S. business had greatly improved its operations in the mid- and late Eighties. It had taken a lot of tough steps to be more efficient. An acquirer could no longer easily create value by improving operations.

And here was the sad part: Many of the deals that didn't work were great businesses. They just had the wrong capital structures. They carried too much debt with too high a coupon. In many instances, like Federated Department Stores, the companies survived but the subordinated creditors and sponsors lost a lot of money.

We did a lot of work on that for our Oct. 15, 1990 issue. We figured a default rate on junk bonds. It showed that deals by Merrill Lynch, First Boston, Salomon, Goldman, Pru-Bache and Bear, Stearns all had much higher default rates than Drexel deals did, even though Drexel did far and away the most and the biggest deals.

The problem was no bells rang on Wall Street when the market value line approached the replacement value line on your chart.
In a way bells did ring. Banks were beginning to cut off lending. And that wasn't the only warning sign. You also had the regulators ringing bells. The big picture in 1989, besides high prices, was that the regulators were beginning

The world according to Milken

1963 • 67

The Dow rises 45% over these years. More than 200 convertible bonds issued, with coupons averaging 5%. Many of these bonds—with equity participation—financed airline and aerospace companies like TWA, American, United, Grumman, Lockheed and McDonnell Douglas.

1968

Billions of dollars of junk debt used to finance the acquisitions that build conglomerates. Some of that debt includes "synthetic convertibles," straight debt with warrants. Loews' acquisition of Lorillard is the largest of these transactions.

to ban investments in high-yield bonds. The S&Ls were ordered by the regulators to sell their junk bonds. Insurance companies had to sell them.

The rhetoric from the Dow Jones publications was so shrill that individuals redeemed $7 billion worth of high-yield bond funds in 1990. A TV commentator asserted that any insurance company that had 10% of its assets in junk bonds might be bankrupt—even though most of the bonds were paying interest and were money good. The managers of the mutual funds had to dump to redeem and dumped more than were redeemed because they wanted cash to meet future redemptions.

Yet the soundly structured companies and LBOs went on paying interest and selling paper and groceries and shoes. But the regulators told the S&Ls: Sell. Bank examiners start to ask bankers: Why do you have so many highly leveraged transaction loans? No use saying: These are good loans. The regulators say: Cut back on them. Sell 'em. Take losses.

TWA went bankrupt in January because it couldn't service its debt.

I told Carl Icahn that he would rue the TWA takeover. I didn't think he wanted the headaches of managing 30,000 unionized employees. And anyway, airlines aren't suitable for constant leveraging.

Macy's also defaulted this year.

Macy's was a Goldman/Shearson deal, not a Drexel deal. But in March of 1989 I visited Ed Finkelstein [Macy's chief executive officer]. It was a friendly visit to a man I greatly respected. I was involved with my legal problems and wasn't looking for business.

My suggestion to him was that in the current environment he should eliminate all that high-coupon debt and replace it with 5% or 6% coupons carrying equity participation—give up some equity in return for much lower interest rates. That way Macy's could cover interest payments even if cash flow was reduced. Macy's was facing too many problems, what with people like the Limited and Gap and Wal-Mart taking business away from department stores. Macy's needed the financial flexibility to deal with its business problems. It needed relief from those huge interest payments.

But remember, in both cases, bankruptcy isn't an end. It's an opportunity to build a more suitable financial structure. Let me give you an example.

In 1984 the Bass brothers invited Drexel to participate in a takeover of Continental Bank in Chicago. The bank eventually failed because of bad loans. Our idea was to take hundreds of their bad loans and turn them into participating loans. We'd own part of the companies. We'd lose on many, but would have unlimited upside on others.

The regulators turned us down. Do you know why? I was told that they were worried that four or five years later someone would write an article if it were successful showing how the Bass brothers and Drexel made $1 billion off the government. So instead, the taxpayer got stuck for $4.5 billion.

So people who say our business was leveraging with junk bonds don't understand what we were doing. Junk bonds were only part.

In 1987—almost five years ago—we met with people at Citicorp. Like Macy's, Citicorp needed flexibility to deal with its mounting problems. We suggested they should spin off their Third World loans into a separate bank and then do a rights offering for $4 billion worth of equity. That would have cleaned up their balance sheet considerably, and it would have given them enough capital to go ahead and deal with the huge problems they were facing.

Four billion? The whole market value of Citicorp's total equity capital right now is barely $6 billion.

But in 1987 Citicorp was selling much higher, around 30 for a market value of over $10 billion. We recommended they do a rights offering. Give shareholders the right to buy one share at $15 for every share they owned. If investors didn't want to exercise the rights, they could sell them. If Citicorp had done that, they could have gotten back to figuring how to grow and be profitable.

The other day, I read that banks were considering doing rights offerings like that. So you can call me lots of things, but please, not junk bond king. It's just not true.

Or it may have been true, but no longer was.

A newspaper article when Macy's went Chapter 11 said that Macy's went under only six years after they did the LBO. Only? Six years is a lifetime in financial markets. I've seen U.S. government bonds drop 50% and go back up 50% in less than six years.

In a volatile atmosphere like the present you should think of capital structure as a variable that can greatly influence the success or failure of a business enterprise. Junk bonds are just one of the variables. Drexel dealt in all the variables. Equity, bonds, bonds with warrants, converts, preferreds. . . .

Doesn't classic academic theory say that capital structure is irrelevant in the long run?

Tell that to a company that's had its credit lines yanked. Here's an actual example of how changing a capital structure can increase the value of a business. When

1969 Milken starts working at Drexel part time in the back office developing a lower-cost security delivery system. He brings management's attention to noninvestment-grade securities, many of which sell at big discounts. Starting at about this same time high-technology IPOs fall more than 50%, burning retail investors. They pull out of the stock market. Brokerage firms, turning to larger institutional investors, fail because of antiquated back offices.

1970

Turmoil and near panic on Wall Street. From May 1969 to May 1970 the stock market falls 35%. Penn Central files for bankruptcy. People fear the same for companies like Lockheed, Chrysler and LTV. Lockheed's 4¼s trade down to 19 cents on the dollar. Milken, Drexel and customers cash in when these bonds don't default.

Archive

Kohlberg Kravis Roberts did the RJR takeover in 1989, they should have put in more equity.

Before the takeover RJR had a market value and long-term debt of about $18 billion. The value of the securities issued by KKR to take it over had a market value of about $24 billion. But as junk bond financed companies continued to come under attack RJR bonds fell to big discounts. Then, last year, KKR did what I thought they should do earlier: They put in more equity capital. After that the bonds went to a premium, where they are today. Now the company, long-term debt and equity, has a market cap of about $28 billion. Recapitalizing with additional equity added about $4 billion to the value.

Of course, capital structure matters. And the capital structure that is right for 1975 isn't necessarily right for 1985 or 1989. Or even for 1995.

Elaborate, please.

Let me show how and why capital structure matters. Follow me through some simple arithmetic. Let's take two hypothetical companies in 1992 that have stable cash flows. Let's say cash earnings before interest, taxes, depreciation and amortization for both—the EBITDA—is $200 million a year. Now let's give Company A a conservative capital structure, with $500 million in debt, borrowed at 8.5%. Here's the picture: depreciation, $40 million; debt, $500 million at 8.5%; interest, $42.5 million; earnings before taxes, $117.5 million; taxes at 40%, $47 million; net profit, $70.5 million.

In the current market Company A could get a P/E ratio of 17, or a market value of nearly $1.2 billion. Add the debt at par and you get a total market value for the company of $1.7 billion—8.5 times cash flow.

Now take Company B, in the same exact business, and give it a leveraged balance sheet and higher depreciation because it was built through acquisitions. Here's Company B: depreciation, $60 million; debt, $800 million at 15%; interest, $120 million; earnings before taxes, $20 million; taxes at 40%, $8 million; net profit $12 million.

The market in 1992 still doesn't like leverage. Junk-financed Company B's access to capital is limited and its interest coverage is less than 2 for 1. So the market prices the bonds at a discount and gives the equity earnings a P/E of, say, 10. Here's the market value of Company B: equity, $120 million; debt, trading at 90 cents on the dollar, $720 million; total market value, $840 million. So you have the leveraged company capitalized in the market at 4.2 times operating cash flow versus 8.5 times for unleveraged Company A. Exactly the same businesses.

Capital structure doesn't matter?

You would reverse the process when the market loved leverage and stocks were selling at a discount to book. As in the early Eighties.

Sure. You could recapitalize Company B and nearly double its value. Just go to the bondholders and suggest: "Look, with a different capital structure we can make your bonds worth more. Give us your junk bonds and we'll give you $500 million in 8.5% A/Aa bonds. With our new conservative capital structure those bonds will sell at par. To make it worth your while we'll give you 40% of the equity. In the above example, the bondholder ends with securities worth $980 million versus the $720 million he had before. And the old equity holders end up with stock worth $720 million—six times as much.

This, of course, explains the rush, beginning in 1991, of leveraged companies to go public or sell stock to pay off debt. The lesson is that leverage is neither good nor bad, but there's a time for leverage and another time for deleverage.

Contrary to conventional wisdom, sometimes the best way to increase a company's stock price is to sell additional equity. Recently Chrysler announced it had sold convertible preferred, and the stock didn't go down on the dilution; it went up substantially over the next few days.

So the motto should be "Give the market what it wants."

But, look, you can't just see these things from the business' point of view. A business needs to raise money, but an investor needs investments that will meet his specific needs.

Put yourself in the position of an investment manager at the beginning of the 1980s. Today they are all geniuses, but then everything was going wrong. If they invested in mortgages, interest rates went up and they had capital losses. Some Treasurys were selling as low as 60 cents on the dollar. Growth stocks had been a disaster since 1974.

So you saw your job as tailoring investments to meet these customers' needs in a tough period.

Yes. Here I was sitting at my desk in late 1979, and I saw most of the financial assets in America dropping like rocks: The Dow Jones industrials still unable to get over 1000; government bonds at big discounts. Only hard assets were doing well: real estate, commodities, gold, silver. It was at that time that G. Chris Andersen at Drexel [Andersen, a former Drexel managing director, is now vice chairman at PaineWebber] and I dreamed up the commodity-backed bond, which we sold for Sunshine Mining. We offered investors a way to get regular income and still have a hedge

1971

Gold standard is devalued, which some economists think gives rise to additional volatility in the debt markets. Start of the sale of hundreds of new junk issues by firms like Merrill, Goldman and First Boston. Secondary market grows for these high-yields with 200 marketmakers. Drexel, still relatively obscure, builds powerful position in this market.

1972

LTV exchanges its 6.5% straight for 7.5% convertible debt, extending its maturity by five years—an early example of capital restructuring. Junk bonds now up over 60% from 1970 low.

against inflation in the form of the commodity backing.

Initially I thought of myself as a retailer. Talk to a customer. See what he wanted. You discovered he needed products that weren't readily available at the time. So it was clear that we needed to create those products. We had to vertically integrate to produce them if we wanted to serve our customers better than our competitors could.

So Drexel designed and manufactured new products and increased the supply of junk bonds.
Yep.

Such as?
Hybrid securities, designed to produce a steady return along with reduced volatility. Floating-rate securities, securities with puts, securities where, if certain things happened, a sinking fund kicked in.

And, of course, high-yield bonds, sometimes with equity participation.
Two of the best were the MCI issue and the Golden Nugget [now Mirage] issues in 1983. These Drexel issues offered some downside protection, since they were mostly debt, but had upside potential as well because there were warrants attached. Investors got security and the companies badly needed capital.

You're saying that this mixture of upside potential and downside protection was what the investors needed in the mid-Eighties. Why were junk bonds the answer to a money manager's prayers in the late 1970s and early 1980s?
Because investors had several years' experience that had taught them corporate bonds were a sound investment even if they weren't top-rated credits. In 1970 and 1974 hundreds of companies that everyone on Wall Street believed would go bankrupt didn't, and people who bought their bonds did very well.

In the early 1970s, while others were telling people that the sky was falling, we were saying that investing in the debt of American business was the best investment, not the worst. That was pretty good advice. Drexel published a list of high-yield bonds to buy in 1970. The list was up 40% in just eight months. In 1974 we did another list, which did even better. We focused on companies like Chrysler and Con Ed and the fact that they weren't going broke.

"But the merger and acquisition guys at Drexel just said, 'Don't pay attention to Mike. He's just sour grapes because he's out of it now.' "

Fallen angels, so called. Mike, how do you define junk bond?
It grates me to call them that. Is CNN junk? Ted Turner sold junk bonds. Anyhow, they are a debt instrument that trades more on the underlying credit risk of the company or the industry than on movements in interest rates. They have legal characteristics of debt, but if things go bad you're generally the first creditor to take on the rights of an equity owner.

You are stuck with the name, but anybody who owned a junk bond fund in 1991 and got a 40% or 50% return that year knows it's not junk. So does Wall Street.
Last month Nomura announced it was looking into setting up a junk bond trading desk.

Clearly, Nomura believes junk bonds are here to stay. Yet the fact remains: In late 1989 and 1990 the junk bond market was in panic.
There were several reasons for this. I already talked about how the action of the regulators hurt the market and how the media's reaction hurt. So did the well-publicized failure of several deals.

By the second quarter of 1988, Wall Street, including Drexel, was still doing highly leveraged deals when the time had passed for leverage. A lot of these deals went bad, and fairly fast—Federated Department Stores/Campeau, for example.

The M&A guys thought they could leverage anything. Hubris.
Not hubris. They were suffering from "they don't remember 1974." They figured capital would always be available. They forgot 1974, when there was no capital for anybody but AAA companies.

On the evening of Mar. 16, 1989, I was with Bill Farley [chief executive of Farley Enterprises] and some other chief executives in a room in the Waldorf. I said, "Bill, you've got the wrong capital structure with West Point-Pepperell." He should have given more equity and less debt. But the merger and acquisition guys at Drexel were saying, "Don't pay attention to Mike. He's just sour grapes because he's out of it now." Bill Farley almost lost everything.

You've got to understand. Entrepreneurs like Bill Farley are by nature very independent and opinionated. They do what they want to do. They hate to give up equity. They always think their stock is undervalued. I guess that's what

1973 Stock market peaks early in the year at 1052, highest it will reach in a decade. Real estate values fall, and banks, heavily burdened by REIT loans, cut back lending.

1974 This generation's depression. By year-end, the face value of debt exceeds the market value of equity by $20 billion, and the Dow is down more than 40%. Prime rate doubles to 11% in 18 months. Unemployment highest since World War II. Troubled banks refuse to finance middle market companies. High-yield issues like Grolier 9½s fall to 20 cents on the dollar; Con Ed and Singer suffer similar fates. Nothing looks safe for investors.

makes them great entrepreneurs.

We've talked with others among Drexel's old customers who confirm that you advised them to sell equity and pay debt in the late 1980s. Ralph Ingersoll was one and he lost most of his company when he defaulted. Roger Stone of Stone Container says you advised him to sell equity a lot sooner than he did. There were others who confirm but asked not to be identified.

Understand, this is nothing to crow about. I wish I had been wrong, for their sakes. But when managements say they don't want to sell equity because the stock is too cheap, I don't really know what "cheap" means in this context. Was Citicorp cheap at 25? Management must have thought so. They could have sold equity at 25, but they didn't. They did sell convertible preferred at 15½ and people accused them of selling too cheap. Then the stock went to 10.

The market is certainly voracious today for stock offerings. It's beginning to look like the 1960s again.

Or 1983 or 1986. These times don't go on forever. Anyone who isn't selling equity today should have his head examined.

The window is wide open.

Window? It's the Grand Canyon.

We had always thought that the leveraged buyout and takeover trends would self-destruct as soon as stock prices got so high that it no longer paid to substitute debt for equity. It didn't self-destruct, in good part because Wall Street firms and banks started using their own capital to do leveraged buyouts. They did bridge loans where the investment house doing the deal puts in some of the junior capital to get the deal done.

Yes, but bridge deals were wrong. The way to test a deal is to let the marketplace decide. If the market won't supply the capital for a deal, don't do it.

But the bridge loan people said, "Well, Drexel has a better marketing department than we have, so we're going to lend money to the deal. Drexel has to sell the securities. We can just walk in and say the job's done. That's better than Drexel giving a 'highly confident' letter." So the merger and acquisition departments took over Wall Street. Now they could pay M&A people enormous amounts of money for just bringing in a deal—whether the deal was marketable or not.

> **". . . bridge deals were wrong. The way to test a deal is to let the marketplace decide. If the market won't supply the capital, don't do it."**

Merrill did the first bridge loan. They were also the first in the case of Global Marine to say you don't need a syndicate; we'll distribute the securities ourselves. One-stop shopping. You don't need Salomon. You won't need Drexel. Get it all done here. The end of the story was that Merrill and Salomon lost millions on bridge loans. First Boston, Kidder and Shearson would have gone under if they hadn't been rescued by rich parents. Against my advice, Drexel started doing bridge loans, started buying pieces of the deal with their own capital.

Drexel didn't have a willing rich parent, so Drexel went under. When Drexel went under it was carrying about $1 billion in unsold securities held in inventory to close deals.

Mike, the gist of what you've been saying is that you think in terms of cycles.

I have always taken this macro approach. The economy goes through phases. So do markets. Just when people start thinking they'll last forever, the phases are ready to change.

In 1973 a REIT boasted in its annual report about its high leverage. There was a built-in conflict there because the management fee was based on assets under management, which encouraged REITs to leverage to the maximum. In those days the market paid a premium for leverage. That was one cycle.

One year later there was a quite different cycle and everyone said that all the REITs were going bankrupt, not just the overleveraged ones. Yet many of the REITs still had great value—just as many so-called junk bond companies did when their securities were in a free-fall in 1990.

You keep harking back to 1974. You were just a kid.

I was 100 then. I'm 200 now. The year 1974 taught me that leverage can decimate even the best company when its access to capital is cut off. It also taught me that most people have short memories. That's why most financial people have five-year careers—one market cycle. All these geniuses who bought stock in the mid-1960s thought they had some divine touch and then it all stopped. It hadn't occurred to them that they looked good because virtually everything was going up. In 1983 Drexel published a paper called "The $55 Billion Misunderstanding." That's how much was lost by people following Nifty Fifty

1975 By January's end Teledyne has taken advantage of depressed stock market by doing two debt-for-equity swaps in seven months—leveraging itself. By 1983 the swapped stock has gained fifteenfold in value. Tandy had already done a similar deal with similar results, both actions being bold examples of using leverage to take advantage of cheap stock prices. Some people proclaim the death of equities.

1976 Resurgence of the stock market. Interest rates are low at around 7%. Confidence slowly returns, but public is still disillusioned with equities.

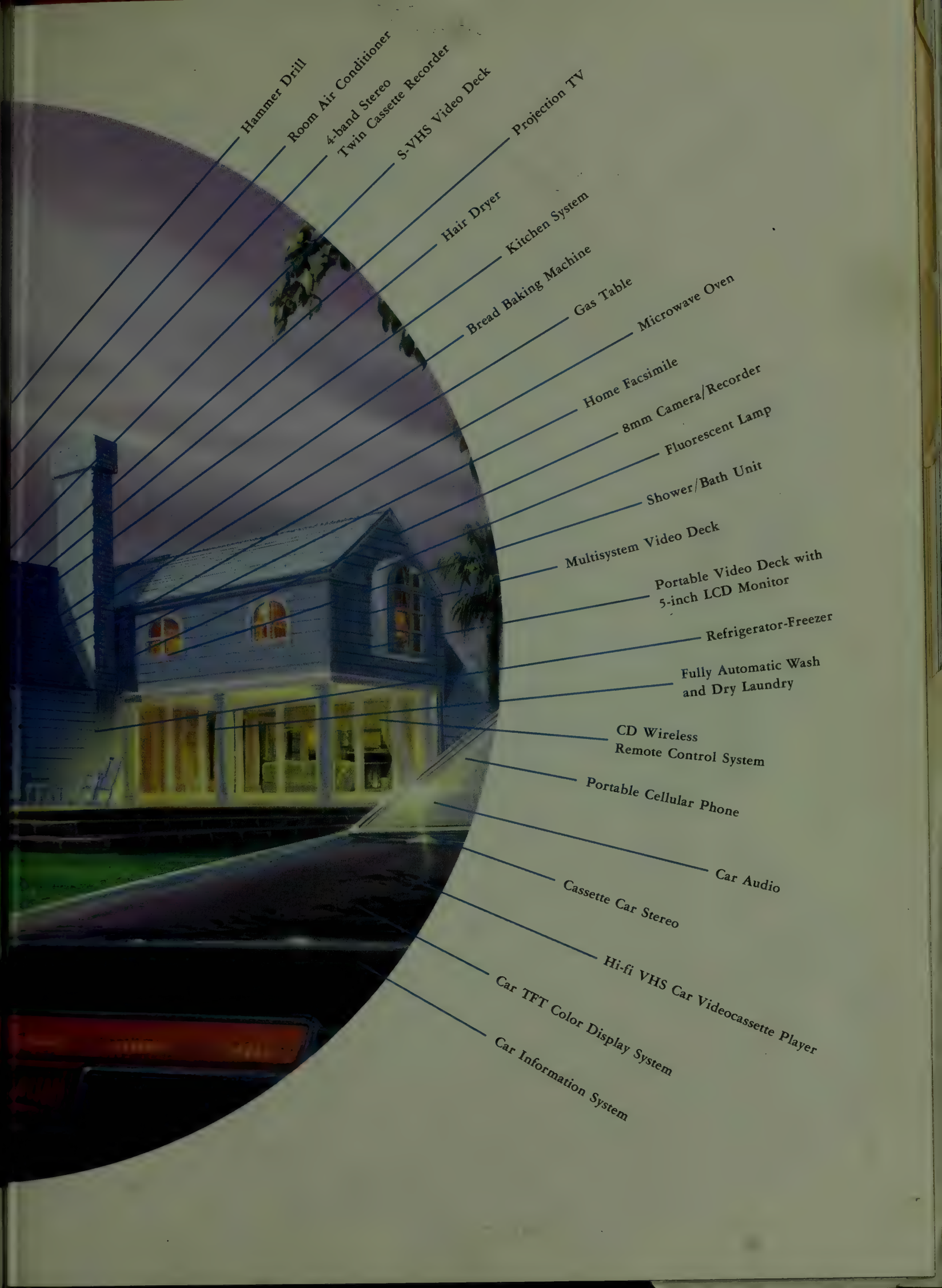
What in the world can a company called Hitachi do for Fred?

HITACHI

Fred's Home.

When Fred relaxes at home, he can't avoid using Hitachi products. He can listen to his state-of-the-art stereo system, or watch his high-definition TV. He might get something to drink from his refrigerator, or perhaps heat up something to eat in his microwave oven. He can call a friend on his telephone, or maybe read by the light of a Hitachi light bulb. The many Hitachi products listed above are among thousands that make life a lot easier for Fred....

HITACHI


Hammer Drill
Room Air Conditioner
4-band Stereo
Twin Cassette Recorder
S-VHS Video Deck
Projection TV
Hair Dryer
Kitchen System
Bread Baking Machine
Gas Table
Microwave Oven
Home Facsimile
8mm Camera/Recorder
Fluorescent Lamp
Shower/Bath Unit
Multisystem Video Deck
Portable Video Deck with
5-inch LCD Monitor
Refrigerator-Freezer
Fully Automatic Wash
and Dry Laundry
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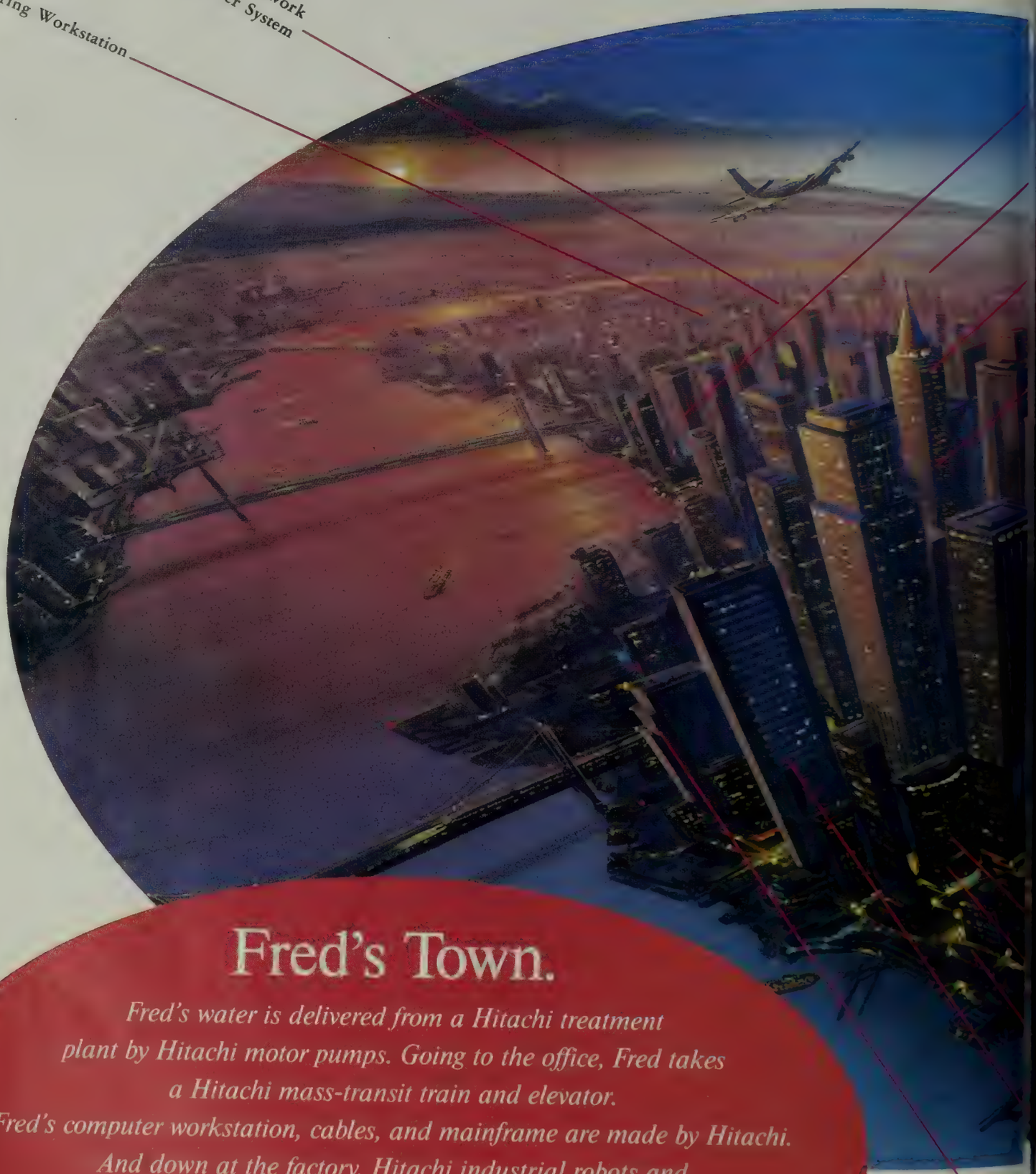
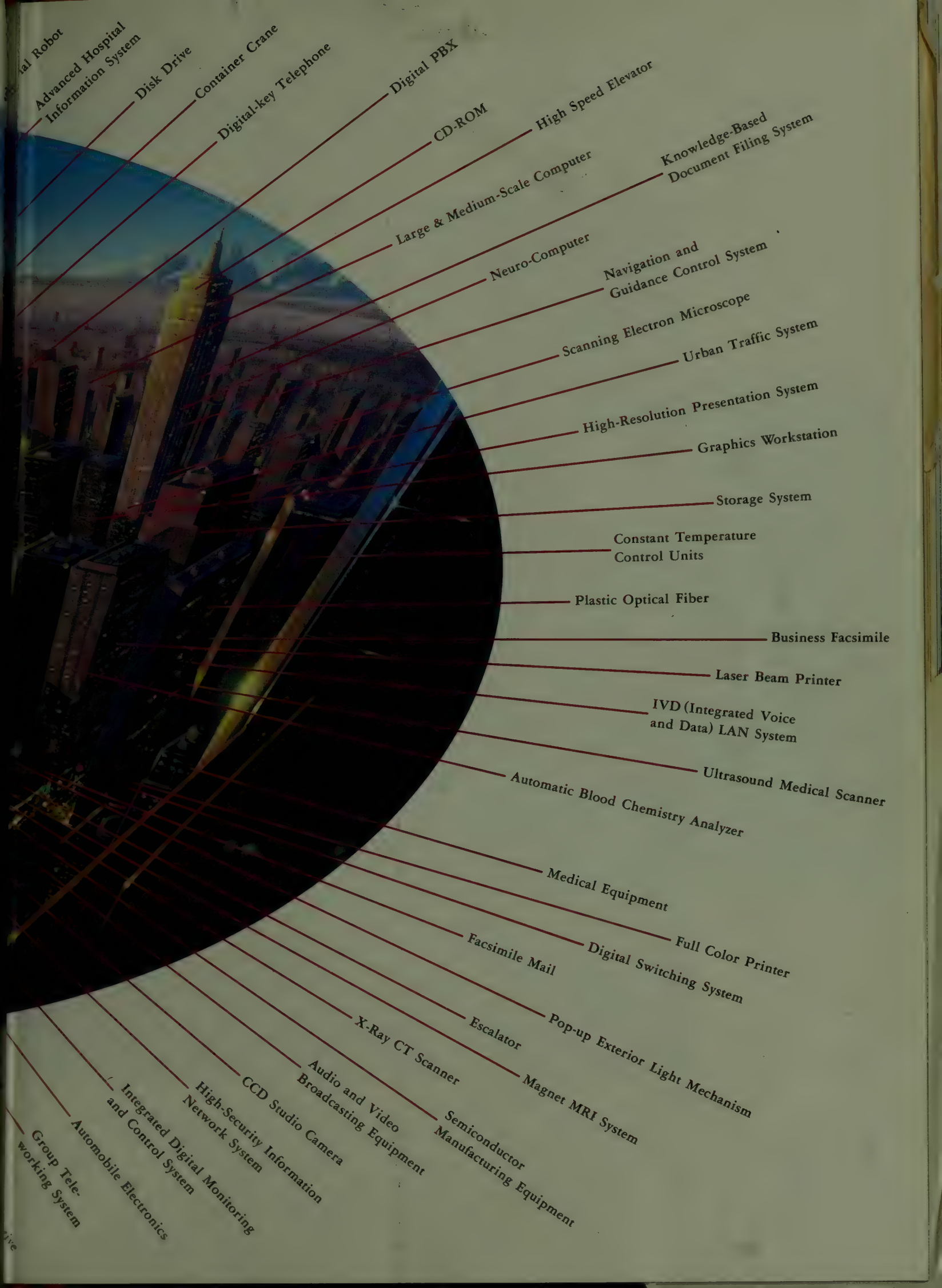
Portable Cellular Phone
Car Audio
Cassette Car Stereo
Hi-fi VHS Car Videocassette Player
Car TFT Color Display System
Car Information System



Fred's Town.

Fred's water is delivered from a Hitachi treatment plant by Hitachi motor pumps. Going to the office, Fred takes a Hitachi mass-transit train and elevator. Fred's computer workstation, cables, and mainframe are made by Hitachi. And down at the factory, Hitachi industrial robots and metal presses are hard at work. Listed above are just some of the thousands of Hitachi municipal/industrial products that keep Fred's town going, and growing....

HITACHI


ial Robot
Advanced Hospital Information System
Disk Drive
Container Crane
Digital-key Telephone
Digital PBX
CD-ROM
High Speed Elevator
Large & Medium-Scale Computer
Knowledge-Based Document Filing System
Neuro-Computer
Navigation and Guidance Control System
Scanning Electron Microscope
Urban Traffic System
High-Resolution Presentation System
Graphics Workstation
Storage System
Constant Temperature Control Units
Plastic Optical Fiber
Business Facsimile
Laser Beam Printer
IVD (Integrated Voice and Data) LAN System
Ultrasound Medical Scanner
Automatic Blood Chemistry Analyzer
Medical Equipment
Full Color Printer
Digital Switching System
Facsimile Mail
Pop-up Exterior Light Mechanism
Escalator
Magnet MRI System
X-Ray CT Scanner
Semiconductor Manufacturing Equipment
Audio and Video Broadcasting Equipment
CCD Studio Camera
High-Security Information Network System
Integrated Digital Monitoring and Control System
Automobile Electronics
Group Tele-working System

High-Temperature Superconductor
Solar Power Systems
Nuclear Fusion
Neural-Net LSI

Fred's World.

In the future Fred's air may be cleaner because of Hitachi research in reducing the emissions of NOx and SOx gasses created in the combustion of fossil fuels, and in reducing "greenhouse" gasses in the atmosphere. Fred's water may be purer, because of water purification and wastewater treatment systems. And advanced communications technology brings people of the world closer together. These are just a few of the ways Hitachi makes the world a better place for Fred to live.

HITACHI

Random Access Memory
Ceramic Materials
Environmental Testing Facility for Plant Cultivation
64-Megabit Dynamic RAM

Electrophoresis Facility for Space
Rolling Mill
Superconducting Microcompuer
Broadband ISDN
Biotechnology
BiCMOS Processor
Flushing Water Treatment and Recycling System
Intelligent Manipulator
Hydroelectric Power Plants
Steel Plants
Supercomputers
Chemical Plants
Thermal Power Plants
Ultrapure Water Production Plants
Advanced Combined-Cycle Power Plants
Synthetic Resin Materials
Environmental Control Equipment
Special Steels
Ultra High-Temperature Composite Materials
Electric Insulating Materials
Environment-Protective Technologies in Automobiles
NOx Removal Systems
SOx Removal Systems

26% of Teledyne's equity for $100 million in 10% bonds—a very high coupon in those days. By the early 1980s that repurchased stock was worth more than $1.5 billion.

In the circumstances of 1974 with the stock market depressed, it made sense to leverage up.

You have read the paper I wrote in 1973 with the late Professor James Walter of Wharton.

That's when you were only 100 years old.
Yes, but my ideas haven't changed. That paper suggested companies shouldn't think of their capital structures as fixed—say 40% debt, 60% equity. They should vary the capital structure as their businesses change and markets prefer debt or equity, or as interest rates fluctuate.

Early on in my career, around 1970, I remember talking with a top executive of LTV. My advice was: Exchange equity for debt. Your debt is selling at a big discount from face. You can create value and unleverage by issuing equity.

The same advice you gave in 1987 and 1989 in FORBES and elsewhere. Did LTV take your advice?
Yes, eventually they did. They traded equity for LTV 5's, a $500 million issue, which traded as low as 15 cents on the dollar in 1970.

Only LTV subsequently went bankrupt.
That had nothing to do with the restructuring. Even after exchanging various assets for debt, by 1974 LTV had no short-term debt and a quarter of a billion in cash. So what did management do? It bought another steel company, Youngstown. Even that couldn't crash them. So they bought a third steel company, Republic. Three steel companies was more than any capital structure could stand.

So what conclusion did you draw from LTV?
That leverage is not for all times and not for all businesses. There are certain industries that should not have leveraged capital structures. Metals companies. Computer companies, where your whole line can be obsolete in three months. Airlines and aerospace companies need to constantly adjust their capital structures.

As Carl Icahn found out. And as Frank Lorenzo found out.
The best leveraged deal of 1989 was UAL. It was the best because it didn't go through. Citibank and Chase had together committed $2.5 billion of their own money to do the LBO at $300 a share, but they couldn't raise the rest of the money. Lucky for them. The stock is now at $155.

Probably the toughest rap against you is that you financed all those hostile takeovers and disrupted American business. You showed small dealmakers how to mobilize large amounts of capital and take over big companies. Unknowns like Harold Simmons and Ron Perelman became overnight billionaires.
My business was creating and saving jobs, not destroying them. Drexel didn't invent small companies taking over big companies. I already cited Loews taking over Lorillard.

There have been several waves of takeovers in U.S. business history. The Eighties were no different. Many takeovers were of large companies by other large companies: Grand Met, Pillsbury; Philip Morris, Kraft; Georgia-Pacific, Great Northern Nekoosa; RCA by GE; Farmers Group by B.A.T. Should I go on?

We get the point.
Some big-company-by-big-company takeovers turned out very badly. They talk about junk bond companies going under, but look at the records of some of those big-company takeovers. They bought at the top and sold at the bottom. Sohio and Kennecott. Mobil and Montgomery Ward.

Hostile takeovers? You ran a story in FORBES quoting the chief executive of Philip Morris to the effect that the most attractive deals were unfriendly. So Drexel didn't invent hostile takeovers, either.

I'm not taking the position that hostile takeovers are bad or good. That's a separate debate. There is actually a lot of information showing that they played a very useful role. But my worry was that doing them would interfere with our raising money for the 20,000 to 30,000 companies that need capital.

Yes, but the fact is that you, Mike Milken, did do hostile deals. You backed Boone Pickens in trying to take over Gulf Oil and Unocal. Saul Steinberg in his move against Disney. Coastal in its takeover of ANR.
Yes, Drexel and I worked on the Gulf and Disney transactions in 1984. The Disney deal was originally brought to us by Roy Disney, who felt his family franchise was being dissipated by the people who were then running the company. Later Saul Steinberg approached Drexel and asked us to represent him in an offer for Disney.

The end result was that Disney got new management, and the value of its stock increased more than tenfold.

You say you later decided it wasn't a good idea for you to get involved in hostile takeovers.
Later I saw the uproar in Congress and the media over hostile takeovers. I told [Drexel Chairman] Fred Joseph

1979

Prime rate rises to 15.25% by October. With their high coupons, junk bonds look more attractive. Banks continue lending to Third World countries. Milken uses junk bonds to finance two industries, which come to represent an increasing part of his business: casinos and home builders.

1980

Gold prices peak at $850; silver at $50, then start to tank; stock values depressed. Volatil interest rates 14% and higher make it difficult to borrow. Drexel begins hybrid financing—debt with equity kickers—with $75 million in high-premium/high-coupon converts for Grumman. For Sunshine Mining, Drexel issues 8.5% silver-indexed bonds, abou 3% below the rate on U.S. Governments.

that the Union Carbide transaction took five years off my life. Mesa's offer for Unocal played a major role here. They were introducing legislation in Congress to ban ownership of junk. Those hostile takeovers were causing an uproar that threatened everything we were doing. I met Fred Joseph on Nov. 16, 1986; it was a Sunday. There were four other people there, including Leon Black and Peter Ackerman. I requested that the firm put on hold hostile takeovers where we would be on the acquirer's side.

"I did not initiate any of these hostile transactions. . . people would come to me and ask if I thought such and such a deal could be financed."

My legal troubles had started and I warned Fred Joseph and Leon Black [Drexel managing director] and Peter Ackerman [Drexel executive vice president] I would no longer be able to review all the transactions from a research standpoint and that they needed to improve their due diligence. I reminded them that our franchise was based on the creation of value for clients and not on issuing securities.

And?
Fred Joseph overruled me.

But you did sell securities from the trading desk even on deals where you could no longer give them your full attention? Some of these didn't turn out well for investors.
I didn't sell securities I didn't believe in. The Drexel corporate finance department in New York was always responsible for the due diligence on those; not me. Not the high-yield bond department. I tried to put in covenants on those offerings that would improve the transactions for the buyers, but the investment bankers just wanted to get deals done and collect fees.

In the beginning you were enthusiastic about hostile takeovers.
Whoa, whoa, whoa. Let's talk about the word "enthusiastic." I did not initiate any of these hostile transactions. Now, I don't want to sound defensive, but firms like First Boston and Shearson went around with lists of companies for clients to make offers for—I'm sure Drexel's M&A department did the same thing, though not to the same extent. Yes, people would come to me and ask if I thought such and such a deal could be financed, but I am very uncomfortable with this word "enthusiastic." Take Gulf Oil, for example. Boone Pickens was working with Lehman Brothers and had an investor group prior to coming to Drexel. He came to Drexel and asked if we could raise money for him to make an offer for Gulf. And the answer was yes, we felt we could raise money.

One of your former colleagues says it was only after you knew Boesky was in trouble that you turned against hostile takeovers.
I think you are moving into Fred Joseph's make-believe world. Just ask Ron Perelman. I told him not to go after Gillette in 1986.

Maybe, but you continued to go along.
Of course I could have left Drexel any time I wanted and increased my net worth and gotten an even higher percentage of my earnings. But I didn't.

Mike, that's just passing the buck. You were still on the trading desk a good deal of the time in 1987 and part of 1988. All that time you continued to flog Drexel deals. If you'd just quit and said leverage was getting excessive, you'd have been a hero. Somebody else would have taken the blame when everything hit the fan. So maybe you would have had to leave some money on the table, but what the heck, you were already a billionaire.
I stayed because the firm asked me to. And I know this will sound Pollyannaish to you, but I wasn't basically focused on making money. . . .

Not just Pollyannaish, Mike. Unbelievable.
Hear me out, please. Wealth is a by-product of solving problems and creating value. If you do those things, you get a high rate of return. If you don't solve problems and create value with your investments, you lose money.

I think of myself as a social scientist. Looking at what is happening in society, what society needs. The best investor is a good social scientist.

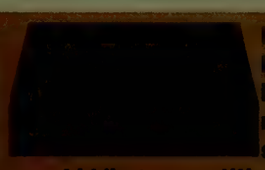
That sounds pretty pretentious, Mike. What do you mean by social scientist?
I mean not just looking at financial figures—looking at society. A decade ago we could see that while TV networks and their affiliates were the blue chips, cable was the future. Cable was junk from an investment ratings point of view. In 1981, 1982, 1983, at the Drexel conferences, I would get up and say NBC, CBS and ABC are left at the post.

The networks were providing broad entertainment. Mass audiences. There was a parallel earlier when we had this explosion of special-interest magazines that put the big, broad mass magazines like *Look* and the old *Life* and the *Saturday Evening Post* nearly out of business. The same thing was inevitable in TV.

1981

Credit available but pricey. Former high-grade companies like International Harvester, Chrysler, Montgomery Ward and Ford are perceived to be in deep trouble. Some of their bonds trade down to 30 cents on the dollar and join the junk bond ranks. The government and mortgage portfolios of most financial institutions, if marked to market, would have made them insolvent.

1986



In volatile and uncertain markets, high-yield bonds begin to look good to investors. The market for noninvestment-grade bonds strengthened, and firms were bidding competitively for junk. Drexel issues high-yield debt for cable companies like Cablevision, Prime Cable and TCI, and finances below-investment-grade companies like Chrysler Financial with commercial paper.

Photographs by James Lukosa

Cable would eventually be able to provide 50 channels—50 special-interest broadcasts instead of one mass broadcast. People can watch sports when they want to watch sports, news when they want news, movies when they want movies, not when the network wants them to. But from a borrower's point of view, cable was junk and network TV was blue chip. Network had a record. Cable didn't.

People forget that today's junk is often tomorrow's blue chip. And these reversals take place fast these days. Look at Wal-Mart and Sears. Ten years ago Sears' market capitalization was four times Wal-Mart's. Today the position is reversed: Wal-Mart's market cap is four times Sears'.

What was your worst deal?
There were a number that didn't perform well. One was Reliance Capital Fund with Saul Steinberg.

What was that? And when?
It was 1983. We set up a $60 million LBO fund for high net worth individuals. We asked for $1 million minimum, ended up taking $250,000.

What happened?
I was personally involved. I personally sold a good percentage of the deal. I invested in it. And I had a lot of my friends in the deal. Even though I was the largest limited partner, when I suggested to Saul Steinberg he should do something he often did the direct opposite. After the fund sold out of Days Inns it put all the money into Telemundo, even though I asked them not to. Everyone lost almost all his money. I personally lost $8 million to $10 million. It was an example where it showed you how independent managements are.

Mike, you keep harping on your successes. But what about all the bad deals you underwrote—Integrated Resources, Hillsborough, Gillett, Southland, Eastern?
I repeat: I wasn't running those companies. I told Frank Lorenzo a year before Eastern went bankrupt that he ought to get out of there. I didn't manage Reliance Capital and I didn't manage Eastern Air Lines and neither did Drexel. And I'm assuming First Boston didn't manage Federated. And that's the point. When you make a loan, you're dependent on the decisions management makes.

Yeah, but you're supposed to identify the good and the bad managers.
Sometimes you're wrong.

Well, we guess it's only human to forget about the losers. So let's be cheerful and talk about a few where you feel you were spectacularly right.
In 1979 people told me Lorimar was going bankrupt. But Lorimar could be made more profitable overnight. Just stop making movies. Over a couple of years, they lost $50 million making movies. But it had this other asset, this terrific asset which was obscured by the movie losses. It had a library of TV film on the books for very little that was worth a huge amount. So we used this zero-book-value asset for financing based on the value of the library for TV syndication. No one had ever done that before. That was real value added.

In 1983 we sold $1 billion worth of bonds for MCI—in July—bonds with an equity component. The equity component was $200 million. It gave MCI the financial freedom to build the company to where it is today.

We also did financing for Turner Broadcasting, using its old MGM movies as collateral, even though those movies were written down to zero. Actually they were appreciating assets, not depreciating assets, since each time they were put out for rental, the rentals went higher. And they were also a source of future programming.

Warner Communications [now Time Warner] was another case. Warner lost a half-billion dollars on Atari. People said Warner was going bankrupt, they should sell assets to pay down debt to save themselves. Shrink the company. Sell good assets like the record business.

Our view of the record business was that this was a business of the future; it could increase in value. Selling the record division would be the worst solution. I was in Budapest in 1984 and was walking down the street and there was a local man with a portable radio blasting out Michael Jackson.

It was the time of the Atari disaster, 1984, and the market value of Warner stock had dropped as low as $1 billion. But there was a tremendous change in technology. Compact discs. Repackage the music and charge twice as much the second time. And here was Warner carrying on its books the record business for maybe $200 million. And people were telling them to sell it. So we did a $500 million convertible preferred stock issue for Warner that enabled Steve Ross to expand records and his other promising businesses without selling assets.

When Warner merged with Time, the value on Warner Communications was $14 billion.

Well, you can't expect a bank loan officer to lend money because some kid in Budapest is playing Michael Jackson tapes.
Trading bonds you get a better sense of credit markets than any bank officer can get. They make a loan and every six

1983

Interest rates drop back to 11%; market rallies. A record year for equity deals. Drexel raises $1 billion in the form of bonds with warrants attached for MCI, then a $1.7 billion (revenues) company. The warrants allow MCI to add $200 million in equity, effectively doubling book value; cash received pays for phone network. Revenues increase to $8 billion by 1991.

1984

Prime rate moves back up to 13% by July and Treasurys rise in sync. Creates further appetite fo high-yield bonds. The November refinancing of Jol Kluge's Metromedia LBO with a $1.9 billion face va is the largest transaction ever done in the public market. Drexel creates a tiered capital structure including floaters, zero coupon notes and straight debt. In 24 hours Milken commits $200 million to restructure Macial, which is near bankruptcy.

months or so they check the books to see how it's doing. Maybe the loan officer has an annual lunch or dinner with the chief financial officer. When you trade bonds, you reevaluate every day, not every six months.

Sitting on a trading desk, if you issued a security on Jan. 5 and on Jan. 11 you suddenly start to see more sellers than buyers, you better find out if something is wrong. Is there something going on in this company we don't know about? If you're trading securities, you're constantly reevaluating individual credits and the credit markets. You're making a new loan every day.

> "We made large profits because we identified a large market that lacked liquidity and we provided liquidity. We created value."

Mike, let's tackle what President Bush would call The Greed Thing. People are saying: How did this guy Milken make so much money? I mean $550 million in one year. He couldn't possibly have made it honestly.

Let me answer the question with a question. Did Sam Walton create value? He and his family made billions from appreciation in Wal-Mart stock. He also created value for all the shareholders and employees and customers. But his critics said, well, Wal-Mart comes into a small town and puts everybody out of business, the mom-and-pop stores and rival chains. So you see there are two sides when you look at a picture.

Walton used retailing technology to create value; Drexel used financial technology to create value, build businesses and jobs and consumer services by enabling entrepreneurs to raise money far more efficiently than they could have done without us. Many of the people who bought securities from Drexel made money, too. That's creating value.

An economist might buy that, but you'll never convince the average person that it's healthy for one person to make billions in a few years. They say: Investment people are just paper-shufflers; they don't create value. Only shoemakers and steelmakers and shopkeepers and people like that create value.

We're in the knowledge age, not the steel age. Wal-Mart's edge and GE's edge and Apple Computer's edge is in organization and knowledge. A hamburger is a hamburger, but McDonald's created value for the public and for its shareholders because it had superior organization. Creating superior organization is creating value. Today those things are more important than physical assets: managements and systems.

We're not saying that's wrong; we're saying that people won't buy it. Not on that scale.

Still, any fair-minded person would have to concede that you created value. A smart money manager interviewed in *Barron's* a month or so ago said something interesting. He didn't mention you by name. He said he'd picked up preferred stock in a company called Dyncorp at a terrific bargain price. The reason it was so cheap was that Dillon Read, the underwriter, brought it out and then walked away from it. The money manager told *Barron's:* "If Drexel had done a deal like that, they would have generated the sponsorship for the securities. Dillon Read was Dillon Read, and nobody cared about Dyncorp."

That was quite a tribute to you folks, because he was saying you added value to your underwritings; you weren't just peddling securities for a fee. And, of course, you often had ownership stakes.

Well, if Drexel was supporting a security, people would invest in it, because they knew they could get information and that we would make a market. We wouldn't just bring it out and walk away. Like Wal-Mart, we'd be open every day for business. You might not like our bid, or our offering, but we'd be there to buy and to sell; we would carry inventory. We didn't sell and drop like Goldman, Sachs and Dillon Read did.

You've read the paper I sent to the salesmen in February of 1971—21 years ago, when Drexel was still called Drexel Firestone?

We read it. It said it was Drexel's intention to take large positions in speculative bonds to provide liquidity to the marketplace so institutions would feel comfortable investing there. That Drexel would create a computerized system for matching buy and sell orders in lots of 500 bonds or more. That Drexel would provide detailed, reliable statistics on the market.

We made large profits because we identified a large market that lacked liquidity and we provided liquidity. We weren't alone in the business or the first in the business. But we created value the others didn't.

If we're going to talk about profits, let's also talk about risk. The first thing to remember is Drexel carried a $4 billion inventory. How much risk does that involve? Well, if you're sitting with that and they ban high-yield bonds, as they did in 1989 and 1990, and they drop 30%, you're out $1.2 billion. You get these kinds of swings in today's volatile markets.

If you guess right with that inventory—as we often

1985 Interest rates dropping. Inflation dips to 3.8% and the Treasury rate keeps falling. Drexel does first hostile takeover backed by junk as Coastal Corp. wins control of ANR. Drexel's "takeover class of 1985" includes Fruit of the Loom by William Farley, National Can by Nelson Peltz, Revlon by Ron Perelman, and Fox TV by Rupert Murdoch. Sensing trouble in foreign markets, Drexel shorts Latin American debt.

Joann Coates (Ft.Bettmann)

1986 Prime hits bottom at 7.5% by September. Treasurys hit 7.5%, their lowest point in nearly a decade. The Dow rises over 20% in the course of the year, a signal to Milken that it's time to deleverage. Warner Communications, American Motors and Fox issue convertible preferred stock. This year Goldman and others complete leveraged transactions for Macy's, Revco. Nov. 14, 1986: Boesky Day.

did—you make lots of money. Suppose you had $4 billion in junk bonds in inventory in November 1990, when the *Wall Street Journal* was saying junk bonds are finished. You hold that inventory and it goes up $1.6 billion in a little over a year. Meanwhile, you have a positive carry of 10 percentage points. In either case it's not like earning a salary, where you get paid whether your firm makes money or not. Investment firms make money trading and taking risks. Look at the hundreds of millions they lost when those bridge loans to LBOs went bad in 1989 and 1990.

Where there's high risks there's high rewards, or nobody will take the risks.

Your critics say you used the power you achieved in the high-yield market to gouge people. Take those Storer Broadcasting warrants. When Kohlberg Kravis Roberts leveraged Storer Broadcasting, Drexel created a payment-in-kind preferred as the junior security and insisted KKR give warrants to buy common stock as a sweetener. When you sold the preferred, you kept the sweetener for yourself and some of your associates. Weren't you short-changing KKR?

We weren't short-changing anybody. We were taking a terrific risk. It's public information that Drexel refused to commit one cent on the preferred in the summer of 1985. They asked me would I personally commit the money. It was a lot: $260 million. My money. Not Drexel's. Not KKR's. And I was on the hook for another $140 million, because the warrants had a subscription clause. I was committing more money than KKR itself. The deal worked. We sold the securities. The deal put KKR on the map, and we all made a lot of money.

In your Fatico hearings, Fred Joseph, your boss, said he didn't know about the warrants that came back to the firm.

Is this the same Fred Joseph who couldn't remember at the Fatico hearings that he asked me to lend $27 million to the firm in December of 1985, at the same time I told him about the warrants? The same Fred Joseph who can't remember I left $200 million of my money in the firm in 1986, but remembers so vividly me quibbling over $15,000?

Let's just say Fred Joseph has experienced some . . . uh . . . memory loss.

I talked to him about Storer. Drexel was entitled to zero of the warrants. Fred Joseph made the decision not to commit one cent of the firm's money. The firm was at risk for nothing. I was at risk. Nevertheless, as a result of the deal Drexel got hundreds of millions in fees from KKR.

We've read that Henry Kravis was personally not upset about it. It seems he insisted Drexel be the lead underwriter on his far bigger takeover of RJR in 1989. But the question remains: Why was Drexel better able to sell securities than its competitors? Was it because you had all these captive customers, businesses in which you and your family often owned interests? Columbia Savings and a subsidiary of First Executive Corp.

I already told you; I can't control these entrepreneurs. They do what they see fit. As for First Executive, Fred Carr [former chairman] was interested in investing in debt securities that offered high yield. Drexel was creating the best-quality merchandise for that marketplace.

Maybe, but you and your family owned a large percentage of First Executive's reinsurance subsidiary.

First Executive did not buy every issue we underwrote. I repeat: The quality of the product that Drexel was turning out, was, in my opinion, superior to [that of] other investment banking firms.

You haven't really answered the questions. It's pretty clear to us that you heavily influenced both these outfits, but it's also clear that it wasn't what you sold them that brought them both down.

We've been asking you some disagreeable questions. So let's turn to some more agreeable ones. Talking with people in the business we've discovered that one of your most perceptive moves was one you have received scant credit for. On Latin America you went totally countercyclical to the banks. When the banks were lending to Latin America in the 1970s and early 1980s, you would have no part of it. But around 1987 you became bullish about Latin America.

When the banks took big writeoffs it was obvious to any good contrarian that it was time to take another look.

As a social scientist, I felt that there wasn't a future for our country without a future for Latin America. In August of 1987 I was visiting the President of Mexico and making speeches about the importance of Latin America. And you can look at the speeches of what I said at the DBL Americas conference in January 1988.

You said proper investments in Latin America should be equity investments, not loans to governments.

Those loans to governments didn't result in productive investments. They just provided the liquidity for rich Latin American nationals to get their capital out. Latin America didn't need loans. It needed to recapitalize so as to get that capital back.

A very smart person who insists on anonymity told us

1987

Stock market values near replacement values, signaling caution to Milken on leveraged buyouts and takeovers. Milken and a partnership of American companies—DBL Americas—switch signals and begin to buy Latin American debt. Same year: bank chiefs, including Citibank's John Reed, giving up on Latin debt.

1988

DBL Americas Fund continues to buy the deeply discounted Latin American debt. Campeau/Allied purchase of Federated closes. Within two years, generates the largest losses of the decade.

some stories about your acumen in the Latin American situation. He said that you bought Nicaraguan bonds in 1987 from Security Pacific and you were the only buyer. You paid a penny on the dollar. Hurricane Gilbert came along and cut a huge swath of their forest down. The Nicaraguans needed help. You put together a deal with the help of Roger Stone of Stone Container to buy fallen trees and build the infrastructure to get them out. You'd pay for some of the trees with the debt you owned. Lawyers said no to the deal because of the Jones Act. But eventually the price of Nicaraguan bonds had started to drift up. It was about 3 or 4 cents. Three or 4 cents with a billion dollars' worth of debt, you're talking about $40 million.

That's true. But the real point was that I believed someday the Nicaraguans would reach a peace agreement. And instead of sitting with a billion in debt as they are now, they could have eliminated all of it for a mere $40 million.

And you showed the same shrewd timing with other foreign debt. The same source told us this: "In May of 1987, John Reed of Citicorp announced he was going to sell $5 billion of his LDC portfolio over the next three years and immediately write it down to 75 cents on the dollar. U.S. regional banks panicked and began to sell their Mexican debt. The late Alfred Herrhausen, chairman of Deutsche Bank, topped everybody and said he was writing it down to zero.

"Finally, Michael in July of 1987 said: 'Where's Mexico?' meaning what's the price on their debt. Then he said: 'Where's Brazil?' We said, Brazil's at 32 cents. He said, 'I think these countries will be coming back.'

"And then Michael said: 'I want to go down to Mexico.' So he looks at his calendar—and this is July 1987—and he says: 'I want to go Aug. 11.' They lined up about 30 to 40 appointments with the minister of finance, ambassador to the U.S., the owner of the major steel company, the major telephone company, even the president.

"One of the meetings they had was with a guy who said about his debt to Michael, 'I intend to pay every dime back. Every penny on the dollar.' And Michael said to him: 'You don't understand. If the debt can be bought at 11 cents, why pay back a dollar? Why don't you just buy back your debt now? Maybe we can help you.'

"And he goes back to Los Angeles and he creates the DBL Americas Fund, which starts helping these companies in Mexico start to restructure their debt."

Yes, that's what happened. Now PaineWebber is saying Teléfonos de México is the greatest stock of the century. Back in early 1988 DBL Americas was buying both debt and equity. The stock, for example, now trades at $2.76 a share. When we were there and we were buying it, it was 18 cents. Ron Perelman and Nelson Peltz invested in the fund.

> "... by putting me and Drexel out of business the other big firms gained billions in fees and trading profits that would have gone to Drexel."

Why did you go into Latin America in 1987 rather than earlier when the banks were lending there?

In 1987 Latin America was the investment opportunity of a lifetime. You had over $1 trillion in LDC debt selling at a discount. What was needed was to equitize that debt, turn it into ownership of assets. Like junk companies in the U.S. are doing today when they sell stock to retire debt.

A while back you said you feel 200 years old. So you should be wise enough to know that if you don't explain what you are doing, people will mistrust you. You not only tried to keep a low profile, you tried to be invisible to the media. So when you got in trouble, your enemies who were voluble with the media had it all their way.

You are absolutely right. I made a mistake. I should have opened up more. Then my legal problems began and my lawyers advised me not to do interviews.

Why didn't I do interviews? I cherished my privacy. Besides, did Bill Gates go to IBM and say my software is becoming more important than your hardware and one day my company might be worth more than yours? Did Sam Walton go to Sears and say, look you guys, this is what you are doing wrong?

Neither Sears nor IBM would have paid much attention. They wouldn't have believed it. Mike, beneath everything you say there is a clear sense you feel the things being said about you are way out of proportion to your confessed transgressions. If that's so, who created the anti-Milken myths, as you call them?

Aren't people always upset by an upstart?

Anyhow, by putting me and Drexel out of business, the other big firms gained billions in fees and trading profits that would have gone to Drexel. You had fees of $50 million and more riding on single deals. RJR was originally a Drexel deal, but when they refinanced the banks got the fees—$400 million. In 1991 alone probably $1.5 billion

1989

RJR Nabisco, the largest LBO in history, is completed by KKR. Farley Inc. acquires West Point-Pepperell in one of the deals that ultimately bring down Drexel. FIRREA is enacted, which makes it compulsory for S&Ls to unload their junk portfolios.

1990

Credit crunch in full swing. Banks, after experiencing losses from LDC loans, now experience losses from real estate, and bank lines dry up. Junk bonds take severe hit when several big leveraged deals go bad. FIRREA takes effect and RTC dumps $5 billion worth of high-yield bonds. Media proclaims death of junk market. Frightened investors flee junk.

Joann Coates

went to other firms that would have gone to Drexel. A lot of clients have gone to Salomon and First Boston.

No matter who makes those fees, people are outraged by the sheer amounts. And you are the scapegoat.
It's sad that a lot of problems the country is in today are mixed up with my problems.

What's bad for Mike Milken is bad for America?
No, but because Milken has legal problems, the media concludes that all the financial practices of the 1980s must have been bad. People tend to forget that the companies we financed created a lot more jobs than they eliminated—unlike the giant corporations. This misunderstanding is one of the factors blocking access to capital.

How is it blocking access to capital?
By propagating the idea that lending to less-than-investment-grade businesses is bad. People forget that most growing companies, the companies that are creating most of the jobs in our economy, are companies of less than investment grade, while the big companies shed jobs; it's in their nature to shed jobs because they are constantly striving to bring costs down so they can compete. Look at General Electric, one of our most successful big companies. GE has shed one-third of its jobs in ten years.

It's gotten so that when a big company announces layoffs, the analysts say: "Great. They're getting their costs under control," and the stock goes up.
This may sound self-serving to you, but look at the facts. In the Seventies and Eighties, when credit was becoming increasingly available to noninvestment-grade companies, the economy added 30 million jobs. Since that credit has dried up, employment has stopped growing. But big companies suffer when small companies can't grow. IBM's customers have less money to spend.

There's a dramatic change in our population. Prior to 1970, 80% of the immigrants came from Europe. Today 80% come from Latin America, Asia, the Caribbean. If you don't give these people a chance, you are going to have trouble. The big companies laying people off aren't going to provide these people with jobs. We've got to get the economy growing again and creating jobs, and only small and midsize companies can do this; the big companies will keep shedding jobs even when the economy picks up.

Even if your appeal for sentence reduction isn't successful, you'll be free in 1994. You'll still be well short of 50 and not exactly penniless. What do you plan to do?
Well, remember, I think of myself as a social scientist. We have to do much more about education. Capital isn't scarce today, but talent and trained people are. We don't need to invest in physical things so much as we need to invest in better education.

I think education in this country is going to be a multi-hundred-billion-dollar industry. That's where I'm going to put my time and money.

> **"The love affair with a lot of these IPOs in 1991 and 1992 won't turn out so great. Be careful of these new issues. Be skeptical."**

Sounds farfetched, but so did your optimism about Latin America sound farfetched five years ago. Mike, what's your advice to businesses today?
I repeat: Sell equity—everybody, private companies, everybody. The time to raise money is not when you need it but when the market will accommodate you.

The long-term bond market is also very accommodating today for companies that do not have leveraged balance sheets. But don't sell convertibles unless you can afford debt on your long-term balance sheet, and if you do, make them low-coupon, low-premium. The stock market isn't always going to go up, and you may find the bonds won't get converted and you are stuck with debt. That happened to a lot of people in 1969-70. They sold converts thinking it was equity just down the road, and it turned into long-term debt when the market collapsed.

As an investor, where would you look?
At low-coupon, high-discount junk bonds of good businesses with wrong capital structures, downgraded in the market because they are loaded with junk debt. These are good bets because managements can enhance their market value simply by recapitalizing. A lot of these companies have already recapitalized, but hundreds still haven't.

I would also look at companies with strong managements whose growth has been held back by lack of access to capital. As they deleverage their balance sheets they'll be able to borrow and grow again.

Also I would remember that many of the IPOs don't do well over time—FORBES has done lots of articles showing this. The love affair with a lot of these IPOs in 1991 and 1992 won't turn out so great. Be careful of these new issues. Be skeptical.

Mike, what's your advice to the policymakers?
Don't ban contrarian thinking. Let people feel that it is okay to take a chance again.

1991

Junk rebounds sharply late in year after panicked holders and RTC dump and Wall Street loads up. Equities strong and leveraged companies like Warnaco, Safeway, Duracell, Mirage and Owens Illinois deleverage by selling over $20 billion of stock and convertible issues. Mike Milken goes to jail.

1992

Junk market rebounds further. Media proclaims rebirth of junk bond market.

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Working women/wives/mothers of the world, pay attention: You probably have too little life insurance.

Gender gap

By Carolyn T. Geer

HERE IS a fairly common set of family circumstances, as witnessed by George Barbee, head of client services at Price Waterhouse in New York: Young-to-middle-aged couple, prosperous, two incomes, one or more children; husband has substantial life insurance coverage; wife has none, beyond perhaps $100,000 in group term insurance provided by her employer. Were she to die unexpectedly, her husband and children could find themselves in financial straits.

Whether it's because the women's movement hasn't caught up to the problem, or simply because married women believe statistics that say their husbands will be the first to die, it's all too common for women to be underinsured. According to the Life Insurance Marketing & Research Association, women purchase on average half as much life coverage as men do: $52,000 versus $103,000. This, despite the fact that employed women now earn 74% of what men do.

Says Judy Faucett, a principal in the insurance practice of Coopers & Lybrand in New York: "Insurance companies by and large haven't done a great job reaching the female market." Some have tried to recruit female agents, but even their clients end up being predominantly men.

Price Waterhouse's Barbee says half the couples with children who seek his financial advice have never thought about insurance for the wife. In some of these couples, the wife is salaried and earns about as much as the husband. In many of the rest, the wife is a homemaker—and neither wife nor husband has stopped to realize what it would cost in nannies, chauffeurs and housekeepers to replace her.

What if the husband makes so much money that the cost of household help doesn't seem to be an issue? Think about this possibility: If his wife dies young, the husband may have to

Andy Levine

cut back on business trips and 14-hour workdays in order to spend more time with the children. Maybe he can't bank on having the fast-track salary forever.

All this is not to say that women should blindly load up on life insurance. Insurance agents have all sorts of methods for highballing policy recommendations. "You can get some ridiculous numbers," warns Deena Katz, a financial planner with Evensky & Brown in Coral Gables, Fla. One dubious technique she calls the "yellow pad" method would have a woman who earns $30,000 a year and whose youngest child is 8 purchase $588,000 in life insurance. Katz says this woman should probably buy only $200,000 of life insurance. The "yellow pad" number comes from assuming future salary growth with inflation, but ignoring taxes on the salary and investment returns on the insurance proceeds.

Here's our simple formula for estimating life insurance needs:

First, take your aftertax income, and subtract your personal outlays (commutation, lunches, clothes and so on). This tells how much of the wife's income supports the family. Now add to this sum annualized allowances for the additional home-making expenses that your husband would incur if you died tomorrow. Note that your salary goes in as an aftertax figure, while the nanny's salary would be pretax.

You now have an annual income amount that would need to be replaced should you unexpectedly die. Now capitalize this sum to get the amount of insurance needed to pay for all that you contributed.

To do this, take the annual income replacement number and multiply it by the number of years it must last. How long is that? Until your youngest child reaches 18, or 22 if you want to factor in some college tuition. Thus, if your youngest child is currently 8, multiply by at least ten. There's no college tuition allowed for in the number that results. On the other hand, we have omitted, for simplicity's sake, the $4,800 (average per year) survivorship benefits that Social Security pays minor children if a working parent dies.

Example: A wife's $70,000 salary brings into the family $40,000, net of taxes and her personal outlays. Her early demise would force her husband to spend an additional $10,000 a year on home helpers. Annual replacement income needed: $50,000. The couple's youngest child is 6. So $600,000 (12 x $50,000) would be roughly the right amount of insurance for this woman to carry. If she currently has a $100,000 policy from her employer, the wife should consider buying $500,000 elsewhere—term insurance, not whole life. That amount of annual renewable term would cost a 35-year-old nonsmoking woman $455 the first year at a low-cost underwriter such as USAA in San Antonio.

Note that this method assumes that the surviving husband doesn't make any real income on the proceeds of the policy. That's a somewhat pessimistic assumption, but it isn't as unreasonable as it seems. A high-bracket buyer of medium-term Treasury notes, for instance, gets 7% before taxes and 4.5% after. If inflation averages 4%, the real aftertax return is only 0.5%.

And as any parent can attest, costs that have anything to do with children—medical, educational, babysitting, movies, whatever—seem to rise faster than overall inflation. ■

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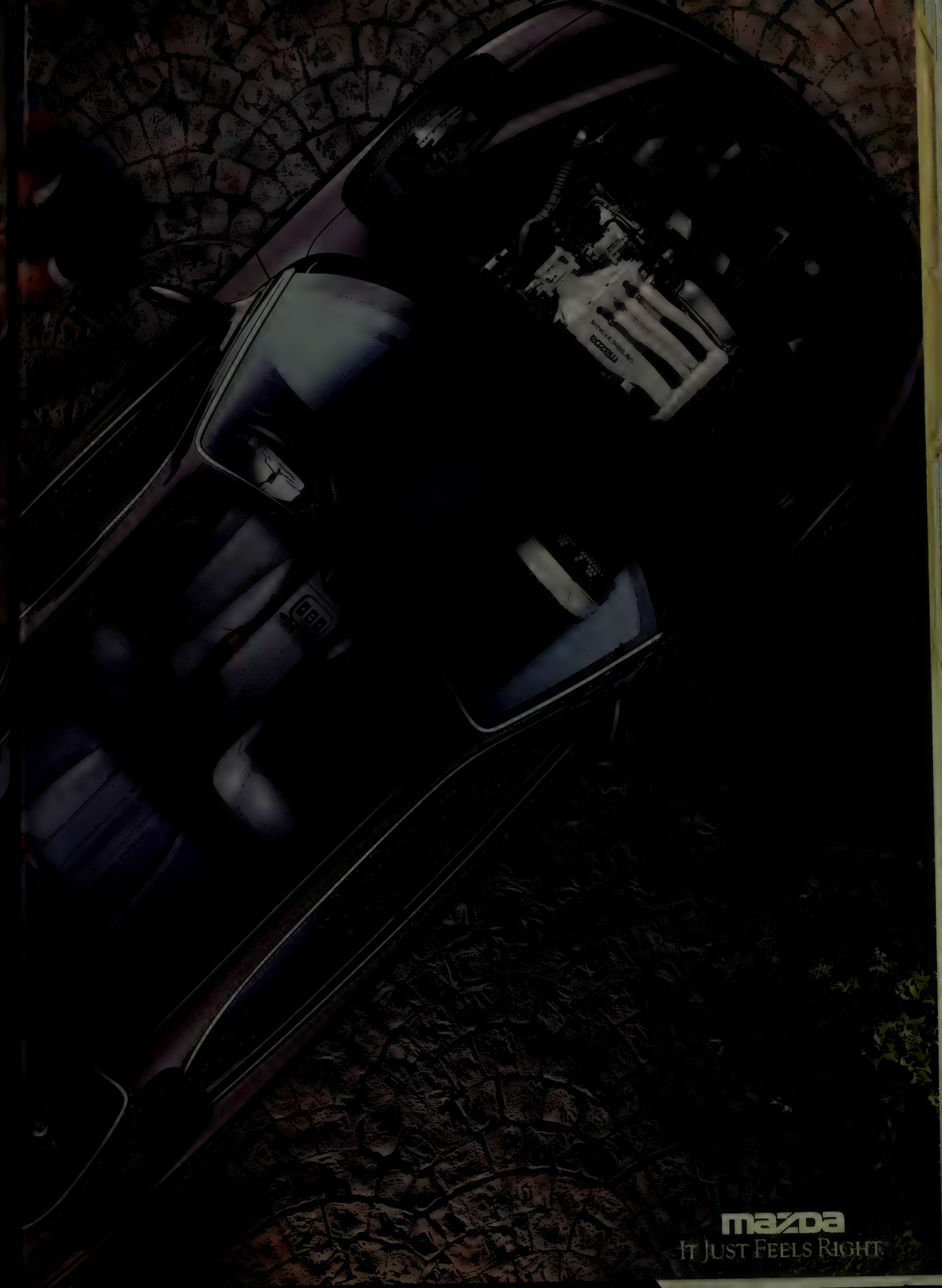
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It Just Feels Right.

Want to stay out of trouble? Be careful what you take with you when you leave your old employer.

Ask before you pack

By James Lyons

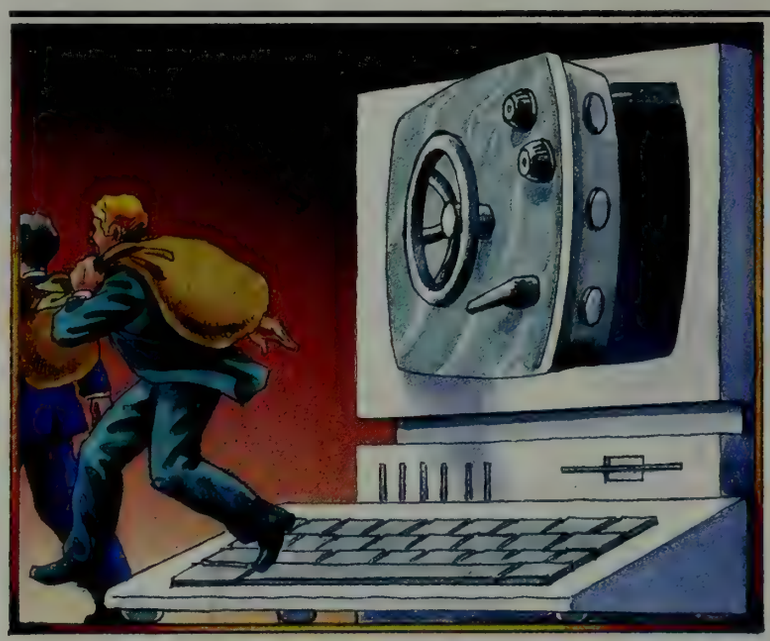
EVER LEAVE a job and innocently copy your computer files, hoping to sort through them later? That's what two former engineers for Texas Instruments Inc. claim they did. Sounds harmless enough. But for the last six years they've been fighting criminal charges stemming from the episode. As things now stand, both men are guilty of stealing trade secrets.

The celebrated prosecution of the two researchers, Robert Leonard and Thomas Schalk, marks one of the few times anyone has ever been charged with the crime of stealing trade secrets. Whether the two engineers actually had used the information was not part of the criminal trial. All the prosecution had to do was show that they had taken it with them without consent.

After losing before both trial and appellate courts, the engineers appealed to the Texas Court of Criminal Appeals, the state's highest tribunal. In a decision handed down late last year, that court upheld the convictions and buttressed the stance of companies and cops that want to chase trade secret thieves.

The defendants challenged the essence of trade secrets law: that Texas Instruments did not take sufficient steps to safeguard the information it wanted to protect. Their contention was not without foundation. Both engineers worked in the area of speech recognition research—developing computers that respond to voice commands.

The defendants argued, "somewhat convincingly," according to the court, that Texas Instruments encouraged the sharing of the fruits of its research with others working outside the company. The defendants' data were discussed in papers and seminars. Texas Instruments "fostered the free flow of information," the appellate court noted.



Jean-François Allaux

Discerning what information Texas Instruments wanted to protect wasn't easy. When they left the company, both men signed agreements saying they wouldn't disclose any of the trade secrets they had learned. But what exactly were those secrets? Texas Instruments' trade secrets register had not been updated and distributed. And the computer programs at issue here were not named specifically in the exit interview agreement.

So how come the convictions were left standing? Because Texas Instruments took a slew of other preventative measures that were deemed sufficient to give the computer programs trade secret status. These included two nondisclosure agreements each engineer signed when he joined the company and an array of security provisions at the plant, such as restricted entry to the lab where they worked.

While it was true that Texas Instruments did disclose some of its research, the chief scientist of the lab testified that the company never revealed the algorithms that composed the software the engineers took with them. Quite simply, the researchers had "neither requested nor received permission to copy the files," the court wrote.

Leonard and Schalk also challenged the search warrant that led to the seizure of the copied programs. They claimed that the warrant did not describe precisely the materials seized, depriving them of their constitutional protection from unreasonable searches. But the Court of Criminal Appeals agreed with the first court that reviewed the convictions. That court found that to draft the warrant as precisely as the defendants wanted "would be to reveal the precise secret information that was intended not to be revealed."

These issues are not academic. Right now George Hwang, the president of San Jose, Calif.-based ULSI Systems, Inc., and a former ULSI employee are fighting a criminal action alleging they conspired to steal trade secrets from Intel Corp. Both say they are innocent; the case has yet to go to trial. Already, the defendants and prosecutors have spent three years wrangling over whether what they allegedly stole was a trade secret.

Moral: If you're thinking of leaving a company where information is at a premium, think twice before tucking away those files and bringing them to your new office. ■

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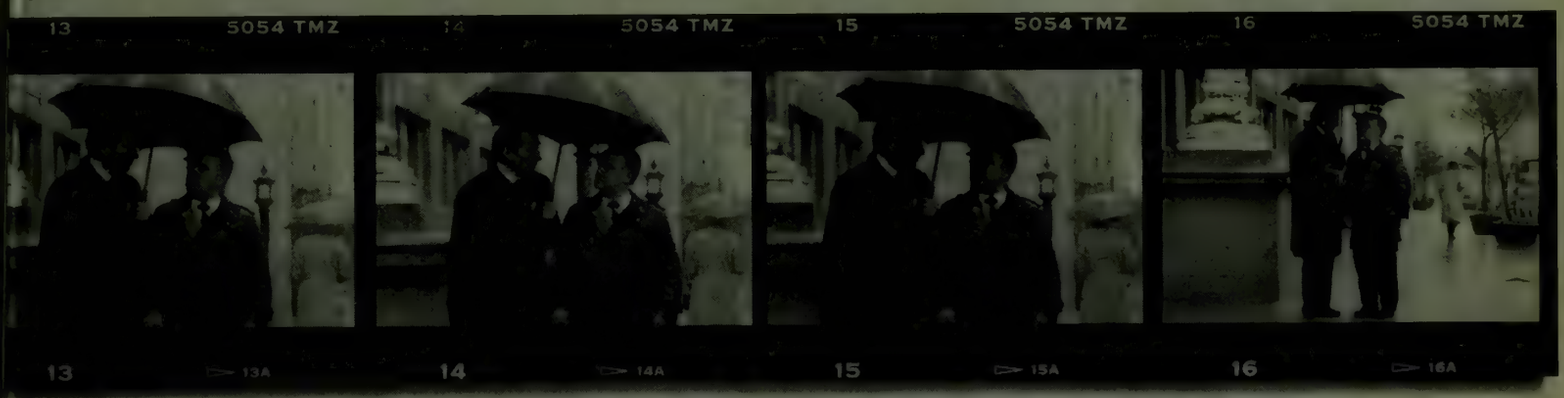

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NORFOLK SOUTHERN
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The collapse of the late Robert Maxwell's empire is providing a fascinating comparison between the British and American approaches to bankruptcy.

Blimey! CPAs!

By Peter Fuhrman

Patrick McDonnell

LAST YEAR 18,000 U.S. companies filed for Chapter 11 protection. A similar number of British companies went bust during 1991. The British, however, reckon they've devised a faster and cheaper way to rescue troubled firms and get more back for creditors: Banish the lawyers from the process and hand management of busted companies over to the accountants.

This cure-by-accountant, technically known as an administration order, was written into British law just five years ago. Much tougher on debtors than U.S. bankruptcy law, the U.K. law permits a troubled company's creditors to appoint a team of specially licensed bankruptcy accountants to sack existing management and take over day-to-day control of the company. These bankruptcy CPAs then orchestrate a reorganization and sale of assets, free of the burdens of expensive court filings and litigation.

"In the U.S., going bankrupt is usually viewed as the result of bad luck, and management is entitled to another shot through a Chapter 11 filing," says accountant Jonathan Phillips, a partner in the insolvency practice at Price Waterhouse in London. "In Britain, we think the blame lies not with misfortune but with mismanagement. The managers who brought about the failure shouldn't be trusted with the company's rescue, nor should lawyers be enriched by the process." Indeed, managers of bankrupt firms can still be packed off to jail if they are excessively slow declaring insolvency.

The British system is now undergoing a fascinating transatlantic test—sorting out the collapse of the late Robert Maxwell's media empire. The largest of his companies, Maxwell Communication Corp. Plc., owner of American publisher Macmillan Inc. and the Berlitz language school chain, is simultaneously involved in a Chapter 11 action in New York and an administration order in London. Overall management of MCC, which reported revenues of $1.9 billion in the year ending last March, is now in the hands of Jonathan Phillips and two other Price Waterhouse bankruptcy accountants in London.

In this case the U.S. courts, for the first time in history, have suspended normal bankruptcy procedures and have granted the Price Waterhouse team wide freedoms to dispose of Maxwell assets and begin paying off unsecured creditors, who are owed a total of $2.5 billion. The three accountants work in front of a 6-foot chart showing all 400 companies in the MCC fold. They are working out which can be salvaged, which should be sold. Because they need no U.S. court approval for most asset sales up to $45 million, there will be much less opportunity for lawyers to gum up the works and end up with a large portion of the proceeds from liquidation. At the conclusion of the operation, the Maxwell holding company will expire and the creditors will have been paid what's coming.

Most U.S. bankruptcy lawyers think this British way of handling bankrupts tramples too hard on the debtor and his or her rights. "It was to get away from such silly Anglo ideas of justice that we had an American revolution 200 years ago," sniffs one New York bankruptcy attorney. But there's more than a little self-interest in such comments. U.S. lawyers' fees in any sizable Chapter 11 action typically top $10 million. In the LTV case, they have already surpassed $100 million.

"No question," says Colin Bird, one of the three Price Waterhouse bankruptcy accountants sorting out the Maxwell mess, "we should be able to do the reorganization cheaper, faster and with better results for the creditors than would be possible under an American-style Chapter 11."

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The Energy To Change

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A "fair" national health insurance scheme might not be so fair to many of the individuals covered.

Dead but fair

BY MICHAEL NOVAK

Michael Novak holds the George Frederick Jewett chair in religion and public policy at the American Enterprise Institute in Washington, D.C. His book *The Spirit of Democratic Capitalism* has been widely translated around the world.

ACCORDING TO many media commentators, the best peacetime record of economic growth in our history, during the 1980s, was in fact terrible because "the rich" benefited more than others. Much preferable, in their view, is the Socialist Syndrome, in which a falling tide lowers everyone's income but income disparities narrow. Better we should have an awful recession than that, God forbid, we should seem to be unfair.

This syndrome is also on display in the current discussion about national health insurance. The Canadian system has been held up as a model of fairness. But nobody is looking into the rapid deterioration of the Canadian system in the last few years, as the logic of nationalization (and government bureaucrats) increasingly takes hold. Research is dying out. Waiting lines for treatment grow longer, and so does the number of patients who die before their turn for certain procedures ever arrives.

What our own Secretary of Healt & Human Services, Dr. Louis W Sullivan, says of national health insur ance is true. It means, says Sullivan "combining the efficiency of th Postal Service with the compassion o the IRS." And "the cost accounting o the Pentagon," adds White Hous personnel director Connie Horner.

The source of this deterioration i the preoccupation with economi equality. Equality, for socialists, is quantitative matter. That is why those infected with the Socialist Syndrome (most of whom would deny being socialists at all) keep going on and on about differences in income, numerical quotas and numerical proportions Ruthlessly, they ignore differences o quality. But most people going into surgery would willingly pay more for higher quality.

Here is what quality in medical care means to aspiring young doctors in Canada, as told to me by a Canadian doctor who interviewed prospective interns. Each of the interns was asked: "What would you think if Patient A and Patient B were both

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IMPROVE YOU

eriously ill and nothing to help them was offered through the national ealth system? However, an expen- ve lifesaving procedure was avail- ble privately. Patient A could not fford it while Patient B could. Vould you approve of letting Patient 3 save his life by paying privately for he expensive procedure?"

According to my friend, nearly all he interviewees said no. "That would e unfair," was the way they ex- ressed it. They felt so strongly about airness that they preferred to let Pa- ient B die. A purer expression of the ocialist Syndrome I have not been ble to find.

You don't have to be a socialist to e concerned with our present meth- d of providing health insurance. ears ago the government made a reat mistake (although, as usual, ith good intentions). It provided oth employers and their workers tax reaks for health insurance. This nice dea has dreadful consequences.

As my colleague Ben J. Watten- berg puts it, the current form of ompany-paid medical insurance fails "the four Ps." It isn't Portable: Lose your job, you lose it. It isn't Perma- nent: A new provider may not cover "preexisting conditions." It isn't Ple- nary: It leaves plenty of things uncov- ered. And it sure isn't Parsimonious: Neither the company nor the em- ployee has an incentive to weigh costs for specific procedures, to shop or to save.

So far, the worst thing about com- pany-paid insurance is the involuntary servitude it imposes on those who can't afford to lose it. But Senators Mitchell and Kennedy have found a way to make it even worse: Impose the obligation to provide it on almost all businesses, including many small ones. This doesn't solve the involun- tary servitude problem, and adds to it the probability that many small busi- nesses will be driven under by the cost of the insurance.

Meanwhile, both the Heritage Foundation and the American Enter- prise Institute have developed reform proposals that go back to the begin- ning and start over. Their aim is to get coverage for everybody (including the 37 million not covered now by any health insurance); to meet the tests of Wattenberg's "four Ps"; and to keep the dead hand of government out of the operating room.

These plans differ in details, but the main idea is to have government stop giving tax deductions to corpo- rations for payments for health insur- ance and to invest this insurance in every American without exception, by way of a tax credit. This tax credit is scaled to income. The rich get little or no credit and largely pay their own way, the middle class pay proportion- ately less of their way, and the poor would receive vouchers. With their tax credits and vouchers, Americans would purchase the health insurance they want. This insurance would stay with each person for richer, for poor- er, in sickness and in health, until death did him in. Since it would cost most people something, there would be an incentive to keep costs down.

Perhaps most important of all, each person could enroll in the private program that best met her or his own needs. No more involuntary servitude to an employer. No more cold fear about losing one's job. No more bur- dens on businesses. And the kicker is: Good-bye, Socialist Syndrome, under which a reasonable price to pay for fairness is death. ■

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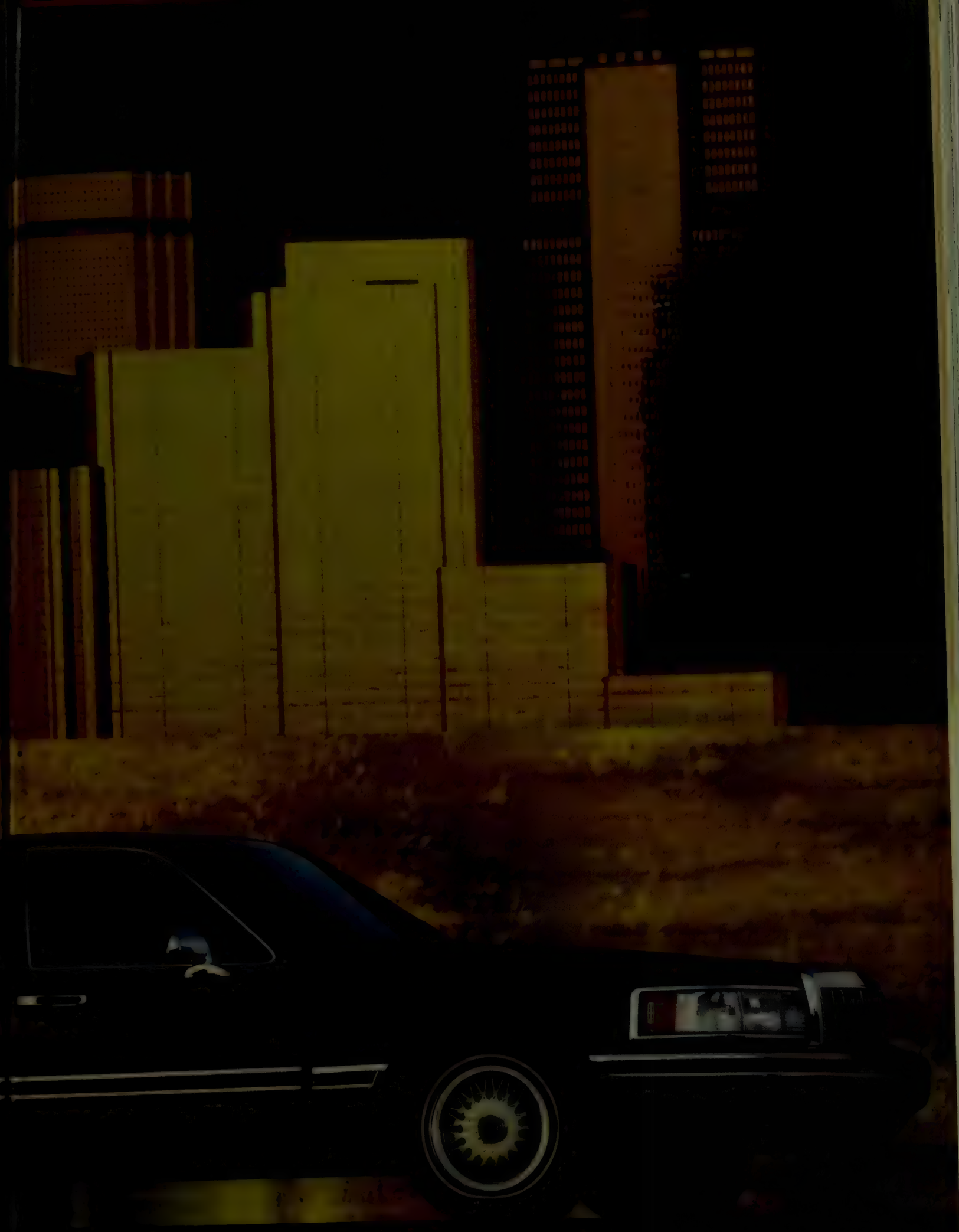
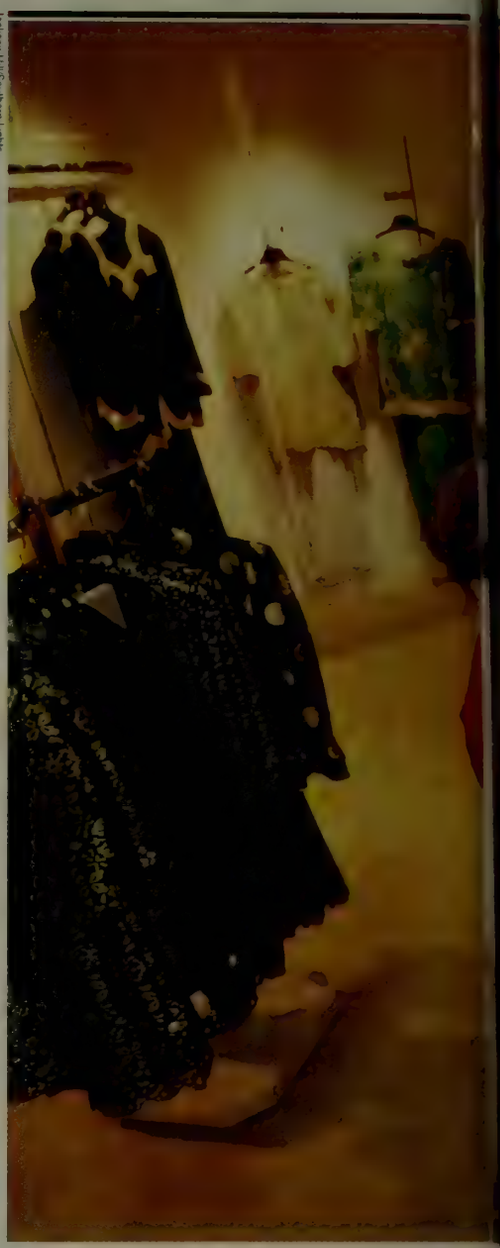


LINCOLN MERCURY DIVISION · Buckle up—together we can save lives

Women with ample figures couldn't find much to wear, but now they're one of the fastest-growing segments of the fashion business.

Hello, Oprah, good-bye, Iman

By Amy Feldman


Jackson Hill/Southern Lights

CHUBBY WOMEN are coming out of the fashion closet. For years, women who wear clothes size 14 and up have had two options if they wanted to dress chic: starve themselves down to a size 12, or starve themselves down to a size 10. Beyond size 14 lay muumuu land.

No longer. One of the hottest fashion trends these days isn't the bare thigh or décolletage, it's the spreading middle.

Next month Saks Fifth Avenue opens a 6,000-square-foot boutique for women size 14W and up in its flagship Manhattan store, called Salon Z. The fashions all come from designers who made their names cutting clothes for shrimp-and-watercress figures: Pauline Trigere, Albert Nipon and Adrienne Vittadini, among others.

Bloomingdale's offers exclusive large-size lines by Gianni Versace and Marina Rinaldi in its Shop for Women area. In May Manhattan's Bloomingdale's will increase the size of its Shop for Women from 8,100 to 13,500 square feet.

New York's Fashion Institute of Technology offers a class in designing clothes for larger women, and now includes for the first time these oversize creations in its semiannual fashion show.

Eileen Ford, the doyenne of fashion model managers, is getting in on the act. Ford bought the Big Beauties model agency in 1988 and now handles 45 models size 12 and up—much heftier than the sylphlike creatures she usually traffics in. Ford is being sued for $3 million for stealing a rival's hottest zaftig properties.

Money is the lure, of course. Sales of large-size apparel have increased to some $10 billion from less than $6 billion in 1982. Among these, the fastest movers are pricier fashions by name-brand designers who wouldn't have touched a size 16 with a ten-foot needle five years ago. Last year these high-priced items racked up sales of some $2 billion during a dismal fashion season, and volume is growing quickly.

Much of the credit for the change goes to Liz Claiborne, the fashion powerhouse and the single biggest brand name in large sizes. Claiborne introduced Elisabeth, designed specifically for larger women, in 1989. In 1991 sales topped $100 million, 6% of Claiborne's volume but growing.

Now Tamotsu, Gispa, Criscione, Caberra and Givenchy have all started drawing on a larger canvas. Givenchy En Plus—French for "your hips are spreading, darling"—now offers dresses, suits and sportswear with prices ranging from $250 for a blouse to $600 for a dress.

The styles are almost identical to regular Givenchy designs. So are Harvé Benard's, but with a subtle concession to the normal human meal: elastic waistbands.

All of this is a long way from the polyester pup tents that dominated fashion for larger-size women at stores like Lane Bryant, the mecca of muumuus. Until recently, stores cultivating a chic image didn't want big women hanging around. Bad for the image. Besides, the industry assumed—incorrectly—an inverse relationship between girth and disposable income; the plumper, the poorer. Indeed, while one-third of all U.S. women wear large sizes, they make only 15% of apparel purchases.

Top retailers and designers are now discovering that the real reason larger-size women didn't spend more was that they couldn't find anything nice to buy.

Designers and retailers were neglecting a huge market. While the diet industry has ballooned to $33 billion, the population is getting heavier, not lighter. Among women age 40 and older, some 40% wear a larger size—generally a 14, 16 or 18.

"These customers have had empty closets for a long time. Now they're making large multiple purchases while the rest of the world just needs to update their wardrobes," says Bruce Nelson, manager of special sizes at Dayton Hudson Corp.'s de-

Saks' Salon Z
for large-size fashions
Out of the closet.

The Elisabeth line
Sales last year topped $100 million.

Givenchy En Plus
Designerese for chic but plump.

partment store chains.

But a definite coyness persists in the marketing of large-size fashions.

Euphemisms abound, the most common being the word "plus," which is about as direct as manufacturers get in naming their large-size lines. Most are even more cryptic. Gianni Versace calls his large-size line "Versatile," while Harvé Benard calls his "Pour la Femme." Go figure.

And, as in the svelte world, many of the models aren't nearly as chunky as the customers they're modeling for. The Limited's Leslie Wexner bought Lane Bryant in 1982 and has upgraded the merchandise. Lane Bryant's ads use size 6 or 8 models. Runway models for fashion shows to the trade tend to wear sizes 16 and 18, but photographers generally shoot size 12 or 14. Heftier than Twiggy, but a far cry from Oprah.

But perhaps the most egregious chicanery has been the wholesale redefinition of garment sizing for all sizes of women.

In 1950 a size 14 would fit a woman measuring 36-26-36. The same woman is now a size 8, while today's size 14 fits measurements of 39-29-40. Then there's the telltale "W" that began showing up as a size suffix a few years back to denote a more ample fit.

The more expensive the garment, the more fiddling with sizes to create an illusion of relative slimness. Mary Duffy, who heads Eileen Ford's large-size model division, wears a size 18W at J.C. Penney, a 16W in department stores, and a 14W in the Patrizia by Mondi designer brand. Ah, vanity, thy name is . . . Versatile. ■

"We did the unmentionable in Hollywood," says Republic Pictures' Russell Goldsmith. "We put our own money into the company."

The tortoise of Tinseltown

By Lisa Gubernick

IN ITS HEYDAY, Republic Pictures was a master of the B movie, churning out dozens of films a year, mostly intended as the second feature in the days of the double feature, but with an occasional classic like *The Bells of St. Mary's* and John Wayne's *The Quiet Man* and *Sands of Iwo Jima*.

Then came television and the demise of the double feature. Republic closed its studio and concentrated on renting its 1,000-film library to broadcasters. In the mid-1970s the company was acquired by NTA, a film distributor. NTA later added a clutch of old NBC series (*I Spy, Get Smart* and *Bonanza* among them) to its feature film library. In 1985 NTA renamed itself Republic Pictures. That year the company earned $1 million on revenues of $15 million.

Enter Russell Goldsmith, 42. He is a lawyer son of Bram Goldsmith, chairman of City National Bank, known as the "banker to the stars" because of the bank's tight relationships with Tinseltown talent. In 1986 Goldsmith and a group of backers plunked down just under $9 million ($14 per share) for a 13% equity stake, 37% voting control and warrants in Republic.

Goldsmith took over as chief executive and got the company into making television productions. "We did the unmentionable in Hollywood," says Goldsmith. "We put our own money into the company."

Goldsmith did not dream of making big-budget movies. His goal was to better exploit Republic's film library. He took a close inventory of its assets and discovered that 121 of the 431 *Bonanza* episodes had never been licensed for reruns in the U.S. Goldsmith hauled the tapes out of a vault and marketed them as *Bonanza: The Lost Episodes*. They were never really lost, mind you, but the title gave them some marketing zing. The "lost episodes" were licensed to the Family Channel Cable Network for an estimated $10 million.

Goldsmith soon demonstrated a skill at packaging and repackaging film assets. Consider its 1946 Jimmy Stewart classic *It's a Wonderful Life*. The film is now in the public domain and is widely available on videocassette for $9.98. A commodity? Not yet. Last year Republic issued a special 45th-anniversary edition of *It's a Wonderful Life*. The package included a tape made from a new negative (for better picture quality), a copy of the original lobby card and a trailer about the making of the film.

Republic retailed the upgraded tape at $19.98 and last Christmas sold 125,000 copies. That put the Republic version of *It's a Wonderful Life* on *Billboard*'s bestselling home videos charts for more than nine weeks.

Republic is now trying to turn the same trick with *The Quiet Man*, the 1952 John Wayne/Maureen O'Hara classic. A special limited edition—a tape set, plus a coffee-table book about Wayne's films—will be priced at $75. Republic's executive vice president, Steven Beeks, expects that the

Ben Baliaget

Republic Pictures Chief Executive Russell Goldsmith
How to sell a $9.98 cassette for $19.98.

Who offers long term care insurance that protects your lifestyle best?

marketing hype attending the special edition will boost sales of the film's single cassettes, priced at $19.98. Over the last five years that sort of marketing panache has helped push Republic Pictures' home video revenues from $5 million a year to over $30 million.

Goldsmith continues to expand Republic's asset base. He recently signed deals with Hallmark's *Hall of Fame* and Viacom Pictures to distribute their films in the U.S. video market. Under these deals, Republic is renting out its video distribution system. Republic recoups all its marketing and acquisition costs and gets a distribution fee.

Projects in the works include videos of *Sarah Plain and Tall,* starring Glenn Close, and *Foxfire,* with Jessica Tandy and Hume Cronyn. "We try to strike a balance between risk and building a solid base," says Goldsmith.

So far, however, this tale does not have a happy ending in Forbesian terms. Since Goldsmith took over, Republic's revenues have quadrupled, to an estimated $80 million last year. But earnings declined to $727,000 in 1990 (17 cents a share), and the price of Republic's 4.4 million over-the-counter shares has dropped to a recent 7½. The stake for which Goldsmith and partners paid $9 million is currently worth about half as much. Their 500,000 warrants—exercisable at 12½—are set to expire in August 1993.

But all hope is not lost. Republic's earnings have been held back by long-term syndication deals on Republic films at low prices, deals set before Goldsmith took over. Goldsmith is currently holding Republic's old gems like *High Noon* and *Sands of Iwo Jima* off the national market and has plans to renegotiate deals as a lucrative package once all current agreements expire, in 1994. Says Goldsmith: "It's like the tortoise and the hare. We may not be flashy, but we'll be there in the end."

The tortoise clearly has its fans. In early February Technicolor Inc., controlled by U.K.-based Carlton Communications, agreed to pay $3 million ($15 each) for 200,000 newly issued Republic shares, twice the market price. ■

There's nothing like a 13D filing by raider Irwin Jacobs to focus the mind. Just ask CML Group Chairman Charlie Leighton.

Irv the Catalyst

By Zina Sawaya

IN JUNE 1989 Charles M. Leighton, chairman of CML Group, received a phone call from Irwin (Irv the Liquidator) Jacobs. Jacobs informed him amicably that he had accumulated a 14.2% stake in Leighton's company, which owned a hodgepodge of specialty retailers and little manufacturing companies.

On the telephone Jacobs was friendly enough. But his 13D filing with the Securities & Exchange Commission announcing his CML stake carried a different tone. It stated that Jacobs was thinking of breaking up CML and selling off the pieces.

CML Group Chairman Charles Leighton
The phone call was friendly, the 13D filing hostile.

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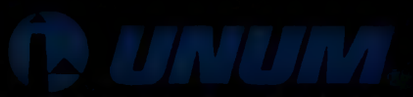

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There were plenty of potential pieces to sell. After starting CML with fellow Harvard Business School alumnus G. Robert Tod in 1969, Leighton bought some 20 companies over the next 20 years. All were small, recreation-oriented businesses, with products aimed at affluent middle-aged customers. Among them were boatmaker Boston Whaler; women's wear retailer Carroll Reed; a retailer of nature-related products called the Nature Co.; and NordicTrack, the exercise machine maker.

It was Boston Whaler that caught Jacobs' eye in 1989; he had been buying up boat companies like Hatteras and Wellcraft. But the closer he looked into CML, the more he saw an undervalued company, one with a few good businesses and a lot of excess baggage. CML's shares were trading at around 8 (adjusted for subsequent splits), just eight times earnings and four times operating cash flow. Jacobs began buying.

After receiving Jacobs' phone call, Leighton jumped on a plane for Minneapolis to meet his new shareholder. Jacobs quickly rebuffed Leighton's offer to sell him CML's Boston Whaler division. "I told him that unless management faced up to some hard decisions," Jacobs recalls, "someone else would have to do it." He urged Leighton and Tod to focus on a few promising businesses, notably NordicTrack and the Nature Co., and to get rid of the rest. Leighton says that he had been thinking along the same lines before Jacobs entered the picture. In any case, with small equity stakes of their own in CML, Leighton and Tod were in no position to disagree with Jacobs.

Layne Kennedy

Corporate raider Irwin Jacobs
He sold out too soon.

Over the next year CML sold four divisions: Carroll Reed; Boston Whaler; SyberVision, a maker of self-help videotapes; and Gokeys, a luggage and clothing retailer. Proceeds raised: $45 million.

Leighton and Jacobs continued to wrangle. In early 1990 Jacobs made a bid for the company and attempted a proxy fight when CML's board turned it down. But he didn't push it very hard. In December 1990 he sold his stake for $17 million to Shearson Lehman, clearing nearly $2 million on the deal.

"He [Leighton] did all the right things," says Jacobs today, "and I totally backed off."

Jacobs, it turns out, was poorly paid for his role as catalyst. Since he sold out, CML's 17 million New York Stock Exchange-listed shares have quadrupled in value (to a recent 37¾ a share) as the company's earnings have surged, to $22 million ($1.36 a share) on sales of $339 million in fiscal 1991 (ended July 31). Boyd Poston, a retailing analyst with A.G. Edwards, expects earnings will jump to $1.75 a share this year.

Will CML be able to sustain such performance? NordicTrack accounted for 86% of CML's operating income last year, but it's unlikely that the $135 million (1991 sales) division can sustain anything like the 53% annual earnings growth it has shown over the past five years, despite the equipment's high reputation among fitness people.

When the economy finally turns, CML should get a boost from the Nature Co., a retailer of science- and nature-oriented gadgets, toys, jewelry and bric-a-brac. The Nature Co. has 71 stores and a large direct-mail business. Eight new stores are planned for fiscal 1992.

Similarly, Britches of Georgetowne (1991 revenues, $109 million), a marginally profitable 77-store retailer of men's and women's clothing that CML bought in 1983, could pick up a bit. But over the long term Britches' problems go deeper than the recession. Poor management forced the closing of the 25-year-old chain's 11 Britches for Professional Women stores; and Britches' 17 women's sportswear stores have been consistent moneylosers. The company intends to refocus around men's casual clothes, a very competitive niche dominated by companies like the Gap and Eddie Bauer.

Might Leighton take advantage of CML's high stock price and healthy balance sheet (debt, which peaked at $120 million 18 months ago, has been reduced to zero) to make new acquisitions? He says no, explaining that he'd rather focus on what he already has. NordicTrack, he insists, will carry the company until the other operations begin to pull their weight.

And if it doesn't? Well, there's always Irwin Jacobs. Irv the Catalyst says he still follows CML.

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In a world of specialization, Allen E. Paulson is an anomaly. As chairman and chief executive officer of Gulfstream Aerospace, he heads the company which leads in the designing, manufacturing and marketing of large corporate jets. At the same time, as a pilot, he holds 36 international flight records, including world records for speed – around-the-world eastbound and westbound flight – establishing the Gulfstream IV as the world's fastest civil jet.

To help Allen Paulson and Gulfstream achieve in both realms, Parker Hannifin Corporation, the world's largest manufacturer of motion-control components and systems, provides its expertise. The result: Gulfstream aircraft are synonymous with superior quality, reliability and extraordinary form and function. At the same time, Paulson's achievements document the scope of a man's abilities to set new standards, aided by machines that are expertly engineered to deliver optimal performance.

Paulson's westbound around-the-world flight makes that point. Flying a Gulfstream IV corporate jet, on June 12, 1987, Paulson and his four co-captains covered 22,886.451 miles and flew into headwinds of up to 139 knots. His time of just over 45 hours and 25 minutes established international marks for jets of unlimited weight and for business jets weighing up to 77,140 pounds. Along the way, the flight set 22 city-to-city speed records. His average speed (including four enroute stops) was 503.91 mph.

Only eight months after claiming the westbound world record, Paulson took to the skies again. This time, he and a four-person crew established the eastbound around-the-world speed record by slashing more than nine hours off the previous standard and clocking in at 36 hours, 8 minutes and 34 seconds. With four refueling stops, the aircraft set an international speed record of 637.71 mph for the overall distance.

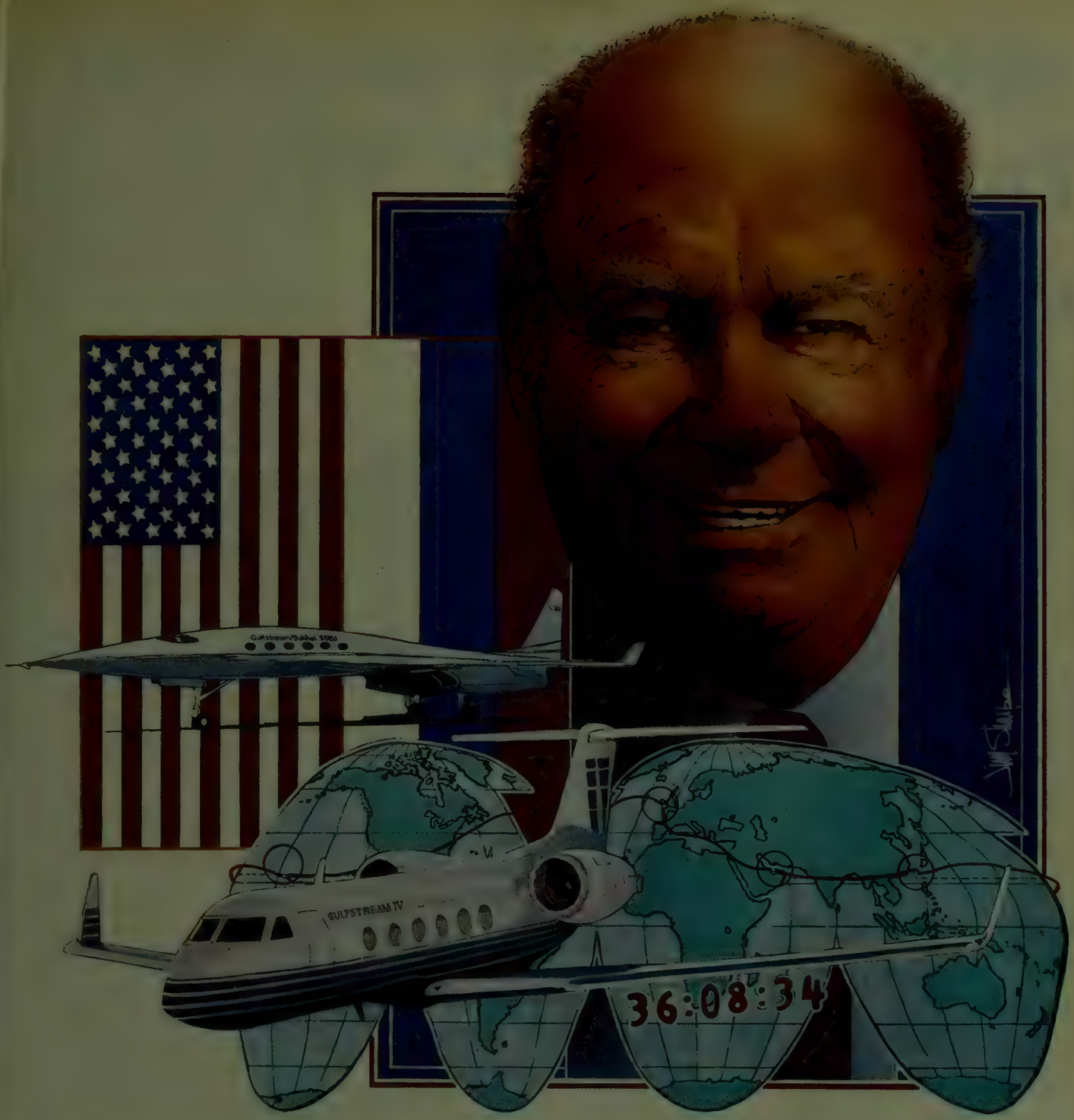
"Allen Paulson's achievements are testimony to the sophistication and reliability of the Gulfstream product," says Paul Schloemer, president and chief executive officer of Parker Hannifin.

Aboard both record-setting flights were Parker Hannifin's hydraulic and pneumatic components, motion-control systems, fuel-gaging systems, digital synthesized aural warning systems, seals and fly-by-wire electronics. It is the same technology that accompanies all Gulfstream IV aircraft as they serve corporations and governments throughout the world. In all, Gulfstream incorporates more than 420 Parker products in this advanced aircraft.

Aerospace systems and components are an integral part of Parker Hannifin's global lineup of products and services. Parker products are aboard nearly every free-world commercial, military and general aviation aircraft and turbine engine, as well as spacecraft and their engines.

This kind of true-tested experience is the driving force behind Parker Hannifin's international leadership in motion-control components and systems. With more than 800 product lines for hydraulic, pneumatic and electromechanical applications in over 1,200 industrial, automotive and aerospace markets, Parker operates some 200 manufacturing plants and administrative offices internationally and supports more than 4,500 distributors serving more than 258,000 customers in every corner of the world.

Parker Hannifin's knowledge of these markets provides the diverse know-how that helps businesses like Gulfstream and its owner Allen Paulson to achieve in a wide range of pursuits.



Gulfstream pursues perfection in flight

Advanced motion-control technology from Parker Hannifin has been an important part of aerospace and aviation history for more than 60 years. Recently, it helped mark another milestone when a Gulfstream IV business jet established several around-the-world speed records. The innovative Gulfstream IV uses over 420 Parker products in its advanced motion-control systems.

And now, after captaining the "Pursuit of Perfection" on its record-setting flight, Chairman/CEO Allen E. Paulson is leading his company on another historic venture.

Gulfstream has joined Advanced Sukhoi Technologies of Russia to develop a business aircraft that would fly faster than Mach 2 at ranges exceeding 5,000 statute miles. And when the supersonic prototype takes off in 1994, Parker technology will be aboard.

Parker's technical expertise has contributed to new levels of performance with customers throughout the aerospace industry, and in the marine, industrial, and automotive industries as well. Companies around the globe rely on the innovation and dependability of Parker technology, components and systems.

These partnerships have helped make Parker a $2.44 billion-per-year leader in the motion-control industry. For more information, write for our annual report: Parker Hannifin Corporation, Department FB-17, 17325 Euclid Avenue, Cleveland, OH 44112-1290. For Parker product information, call 1-800-C-PARKER.

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A partnership in vital technologies

Parker

Few people envied Edwin Garrison when he took the helm at Thiokol Corp. three years back.

Tough assignment

By Thomas Bancroft

HERE'S A formidable challenge: Morton Thiokol was split in two in July 1989. Morton International got the profitable salt, specialty chemicals and air bag businesses. Thiokol was left with the rocket engine business, which had been thoroughly besmirched by the tragic explosion of the space shuttle *Challenger* in 1986. The unenviable job of straightening out the rocket company fell to Edwin Garrison, now 63, an Alabama native who had worked for Morton Thiokol since 1952 in positions ranging from project engineer to marketing specialist to the president of the aerospace division.

As if the *Challenger* problem weren't bad enough, Garrison took charge of Thiokol just as defense spending, the source of almost 50% of Thiokol's business, was peaking.

Yet under Garrison, Thiokol has blossomed. Since the breakup, the return on Thiokol Corp.'s equity has averaged over 17% a year. Revenues have grown only slightly (to $1.2 billion), but net income surged from $36 million in 1989 to $53 million ($2.75 per share) in fiscal 1991, ended last June.

From the beginning, one of Garrison's priorities was to mend Thiokol's goodwill in Washington after the *Challenger* disaster. To do so, Thiokol took on a $400 million redesign program of the booster rockets for the shuttle program. The government funded the project, but Thiokol did the work at cost.

This will stand Thiokol in good stead as it negotiates new contracts with NASA. The company's current $2.6 billion contract to produce its redesigned solid-fuel rocket boosters for the shuttle program is scheduled to run out in 1997. At that point, NASA is scheduled to start buying a new, more advanced booster from Lockheed. But the very budget cutbacks that threaten defense contractors may work in Thiokol's favor.

Tom Smart/Gamma-Liaison

Thiokol Chief Executive Edwin Garrison
Proving there is life after Challenger.

Strapped for funds, NASA may yet decide to continue using Thiokol's proven redesigned boosters rather than switch to new, more expensive, untested Lockheed boosters. In January then NASA Administrator Richard Truly announced he was temporarily suspending funding for the Lockheed project.

Garrison says that NASA has already approached Thiokol about extending its redesigned booster contract another three years, which could make it worth another $800 million. Reason: Lockheed's new advanced booster might not be ready until 2000.

Garrison has other good prospects. In November McDonnell Douglas and Martin Marietta selected Thiokol as a subcontractor to compete with them on a bid for the Army's Strategic Defense Initiative program called Theater High Altitude Area Defense. If the team gets the contract, Thiokol will supply the propulsion systems for the program's missiles. The contract would be worth well over $100 million.

Garrison, however, is sharply aware that he must supplement his government business with more commercial work. He has set this goal: By 1996 Thiokol must generate at least 50% of its sales from civilian customers, up from 15% today. To this end, he has been negotiating with prime contractors for Motorola Corp. to use Thiokol's hardy Castor rocket motors to power a series of satellites that would control a mobile telephone network from space. Garrison estimates this deal could generate as much as $100 million a year in new revenues if he can pull it off.

In November Garrison took a big stride toward building nondefense orders by paying $150 million, cash, for Huck Manufacturing Corp. Based in Irvine, Calif., Huck manufactures fasteners like high-grade rivets and lock bolts for aircraft, trucks, bridges and other markets. Thiokol Chief Financial Officer James Wilson says Huck should contribute about 10 cents a share to Thiokol's fiscal 1992 earnings and about 20 cents a share in fiscal 1993.

Yet fads are fads, and, defense stocks being out of favor, Thiokol shares recently traded at 16 a share, less than six times earnings, estimated by analysts to hit $2.80 a share in the current fiscal year. That's a 20% discount from the defense contractors' average earnings multiple of 7.5 and even a bigger discount from the Standard & Poor's 500 market multiple of 23. If this perturbs Garrison, he doesn't let on. "My job is to see that we can handle the programs that we can win," he says matter-of-factly, "and to know when they are going to be phased out." That's a task he seems to have mastered exceedingly well.

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5. With Sprint your calls go through in less time than it takes to skin a mosquito.

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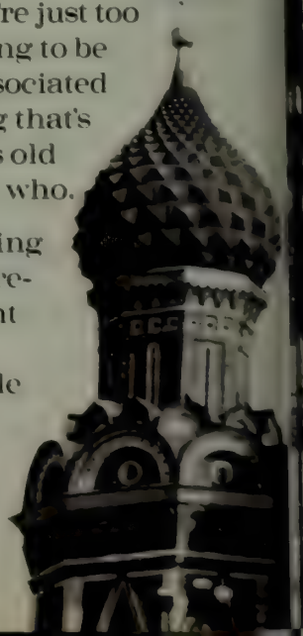

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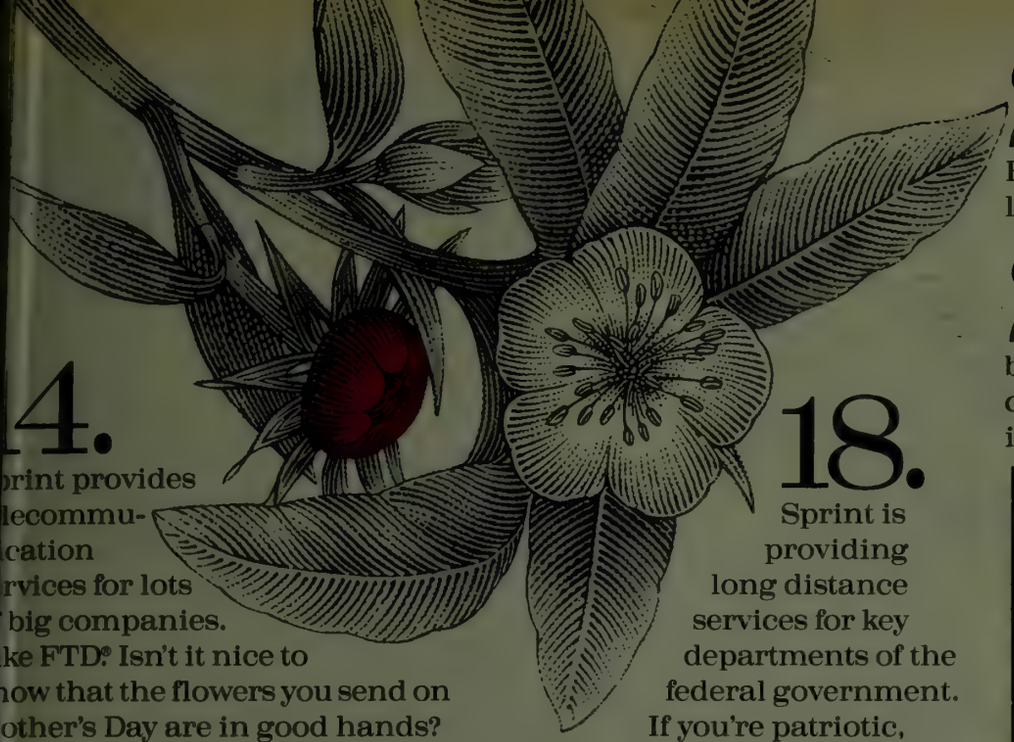

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17. Sprint's based in Kansas City, so we're bound to be nicer.

18. Sprint is providing long distance services for key departments of the federal government. If you're patriotic, that's reason enough to switch to Sprint.

19. It's so darn easy to switch to Sprint. All it takes is one call.

20. Sprint lets you conduct a business meeting over our videoconferencing network, so you don't have to spend so many nights away from home.

21. Life's too short not to try something new.

22. Sprint has been selected by more than 95% of the FORTUNE 500. Not bad for a company that's only six years old.

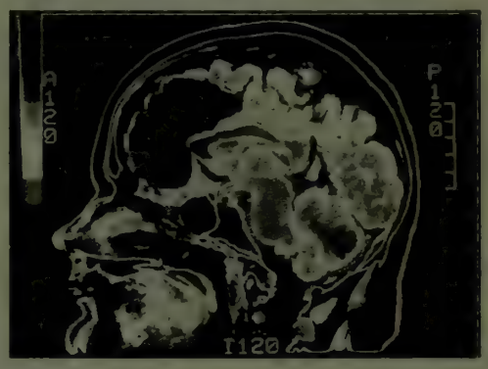
23. Sprint's volume discounts. We've mentioned them before, but they're worth repeating.

24. You have close relatives in 200 countries and locations around the world. Sprint lets you dial them all. Direct.

25. Sprint didn't go down recently and leave about a kabillion people stranded like you know who.

26. We don't have the word "telegraph" anywhere in our name. However, we do have the world's largest public data network.

27. No matter what other telephone companies want you to believe, Sprint gives you instant credit for wrong numbers the instant you ask for it.



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Do publishers deny authors their fair share of royalties? Erica Jong, Salman Rushdie and the author of a popular massage book think they might.

Cooking the books

By Dana Wechsler Linden

GORDON INKELES, a masseur and writer, was startled to see "Over one million copies sold" emblazoned on the cover of his book, *The Art of Sensual Massage*. Inkeles says that at least 400,000 of those books have never shown up on his Simon & Schuster royalty statements. Inkeles thinks that he might be owed at least $400,000 and is thinking of suing his publisher.

Fear of Flying author Erica Jong figures she's owed over $1 million in back royalties for the 20 million copies of her books sold in 25 countries since 1973. She says her publishers had renewed several licenses without telling—or paying—her.

Authors and their agents have long complained about publishers' hard-to-decipher royalty statements. But the noise level has now reached the point where the powerful Authors Guild is beginning to underwrite spot audits for its writers; at least one—Inkeles—may soon bring the issue public in the courts.

There's a lot at stake. For hardcover trade books, authors typically get 10% of the retail price for the first 5,000 copies sold, 12.5% for the next 5,000 and 15% thereafter.

Most royalty lapses by publishers may well be the result of unintentional errors by overburdened clerks. Only recently have a few houses, among them Bertelsmann's Doubleday & Co. and News Corp.'s HarperCollins Publishers, begun to modernize the antiquated computer systems in their back offices. This may explain why Viking Penguin, publisher of Salman Rushdie's *Satanic Verses*, credited the author with the wrong royalty rate on sales in the U.K. and on a portion of books sold in the U.S. Underpayment to Rushdie: a rather trivial $10,000.

Rushdie's agent uncovered that underpayment after commissioning an audit of her client's royalty statements. But few authors exercise their audit rights. Requiring somewhere between a few days and two weeks of a specialized accountant's time at up to $200 an hour, an audit can easily cost $5,000 or $10,000, more than the average author can afford.

When an author does unleash a royalty auditor, the auditor usually heads straight for what's known as the "reserve against returns." In the book business, all merchandise is returnable for full credit. "Gone today, here tomorrow," quipped the late Alfred A. Knopf about book inventories.

Bookstores now return over 50% of the mass market titles they buy. Publishers are entitled to withhold from an author's royalties a "reasonable" reserve against future returns. But what's reasonable? Is it 75% some mass market publishers quietly use?

Auditor Jack Anfang collected $500,000 for author John Jakes back in the late 1970s for questioning what was reasonable for Jakes' 20-book opus, *The Kent Family Chronicles*. Publisher Jove Publications started by withholding an unusually high reserve for the first book of the series,

John Harding

Author and masseur Gordon Inkeles

Will "The Art of Royalty Collection" be next?

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March 31, The Plaza Hotel, New York

AAF

he Bastards. The percentage of re-urns was much lower than expected. ut when the second book came out, e publisher used the same reserve ercentage against Jakes' royalties. he pattern was repeated with the ird and fourth books, even though eturns remained low.

Jakes presumably would have re-eived this money eventually, after everal years. Meanwhile, the publish-r was getting an interest-free loan rom the author. "It's one of the few ources of cash that can be manipula-ed," says agent Richard Curtis.

Publishers don't really cook their ooks, but they do keep two sets. According to accountant Paul Ro-enzweig of New York's Moseley As-sociates, who was also a publishing executive for 23 years, reserves against returns show up in two different places on the books of every publish-er. The first is a reserve subtracted from the amount the publisher ex-pects to receive from booksellers. The second reserve is what the royalty manager chooses to deduct from wri-ters' royalties.

"In my experience, the two [re-serves] are never in sync," says Ro-

Murray/Sipa

Mounte/Sipa

Writers Salman Rushdie and Erica Jong

"Often when authors squawk, publish-ers become punitive," Jong says.

senzweig. "The latter is always great-er than the former."

Author/masseur Inkeles is mad about things beyond the 400,000 copies he says are missing from his royalty statements. Inkeles says he noticed in the late 1980s that the fees Simon & Schuster was passing along from his British publisher were calcu-lated at the wrong royalty rate. He also asked Simon & Schuster why he was receiving only a trickle of royalties from the Quality Paperback Book Club, even though for more than two years he kept seeing *The Art of Sensual Massage* in the club's ads and had heard the book was one of the club's best sellers.

In May 1990 Inkeles' book was selected by the Authors Guild as one of three books for the first Guild-sponsored audits. Two days before the audit began, Inkeles received a $6,100 check from his publisher for the British royalties. A few months later he received about $2,000 more for sales by the Quality Paperback Book Club.

The audit is not yet completed. Simon & Schuster has stopped paying Inkeles royalties for *The Art of Sensual Massage,* including some $5,700 he earned in 1991.

"Inkeles owes us $14,000 for a book he was paid for but never deliv-ered. We have a right to offset his royalty earnings against other sums he owes us," say Mark Morril, Simon & Schuster's general counsel. Inkeles says the publisher canceled the book, and no money is due.

"Often when authors squawk, publishers become punitive," says *Fear of Flying*'s Jong, currently the Authors Guild's president. Perhaps *The Art of Royalty Collection* is next from Inkeles.

NEW AUDI TAKES AIM AT LEXUS AND ACURA.

In order to stand out in the highly competitive American car market, Audi has invested millions of dollars in redesigning and rethinking every automobile in its line-up, starting with the all-new Audi 100 V-6. At a base price of only $29,900,* it's clear Audi is not content to let Lexus and Acura corner the market. Indeed, Audi believes the new 100 will break from the pack, being the first new automobile in its class to offer German engineering with Japanese pricing. With front-wheel drive, driver's side air bag, and ABS standard on every Audi 100, Japanese car buyers may find the new Audi too good a value to ignore.

—KARL TREUTLER, DETROIT

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Advertisement

A husband and wife, working at opposite ends of a university campus, figured out how to connect distant computer networks. The company they founded is worth $2.5 billion.

Long distance relationship

By Julie Pitta

A TIGHT BUDGET is always good training ground for an entrepreneur, and the husband-and-wife team of Sandra Lerner and Leonard Bosack put that training to good use when they decided to quit their jobs at the university and commercialize their computer networking invention under the name Cisco Systems Inc.

Lerner oversaw the computers at Stanford's graduate school of business. Bosack, her husband, worked 500 yards across campus as the manager of the computer science department's lab. Although the computers within their own departments were linked, the two departments were not linked. Bosack figured out how to connect the two networks so they could share software and databases. "We were on a tight budget," Lerner remembers of those days a little over a decade ago.

Accustomed to shoestring operations, they financed their venture by mortgaging their house and running up bills on credit cards, put a used mainframe in their garage and persuaded friends and relatives to work for deferred pay. At one point in 1986, strapped for cash, Lerner went back to work as a corporate data-processing manager.

Bosack and Lerner were onto something. The movement for so-called "open systems" was picking up steam. This meant that it would become possible to hook up lots of computers, even rival brands. Other entrepreneurs seized on this trend by selling devices to link computers into networks. Lerner and Bosack were working on a higher, less crowded plane: networks of networks.

Cisco's product is a router, a combination of software and hardware that links clusters of computers. Not just universities need routers. "We suspected that Procter & Gamble in Des Moines was going to want to talk to Procter & Gamble in San Francisco," says Lerner.

Lerner and Bosack at first se mostly to fellow engineers via panet, an electronic grapevine used many universities. But it was t Procter & Gambles of the world tl made Cisco into a giant success. Ju five years after Lerner quit her l outside job, Cisco Systems has tak on a breathtaking market value $2.5 billion. The company sold or $183 million of routers in its fisc year ended last July, but it has fabulous 24% net margin, and W Street is expecting a jump in sales $300 million for fiscal 1992.

Lerner and Bosack offered the technology, unsuccessfully, to sever established companies. Turne down, they opened the business o their own, beating back a deman from Stanford University for $11 mi lion in "license" fees for the right t sell an invention Bosack develope while still on the Stanford payrol Stanford eventually settled for abou $150,000 plus free routers and sup port service.

Bosack, now 40, was the inventor d visionary; Lerner, now 36, was e business manager and trouble-ooter. They sold their first router in 986. A year later they were selling 250,000 worth a month—and in nger of going broke. The business as profitable but short of cash. And , with some mixed feelings, they ent to Donald Valentine, the ven-re capitalist who funded Apple omputer, for help.

Lerner and Bosack had already giv-n away a third of the stock to workers ho, like the two founders, were get-ng little or no cash salaries. In the eal with Valentine they had to give p still more stock—and surrender ontrol.

They got a taste of what was in store hen Valentine hired John Mor-ridge, a Silicon Valley veteran, as hief executive over their heads. "The rst time I met John Morgridge he ad already been hired," Lerner says. isco's managers had been a collec-ion of Lerner's and Bosack's riends—a 70-year-old retired physicist, for instance, was a plant manager. Morgridge replaced them with more experienced hands. Morgridge also built up a direct sales force to woo the corporate accounts.

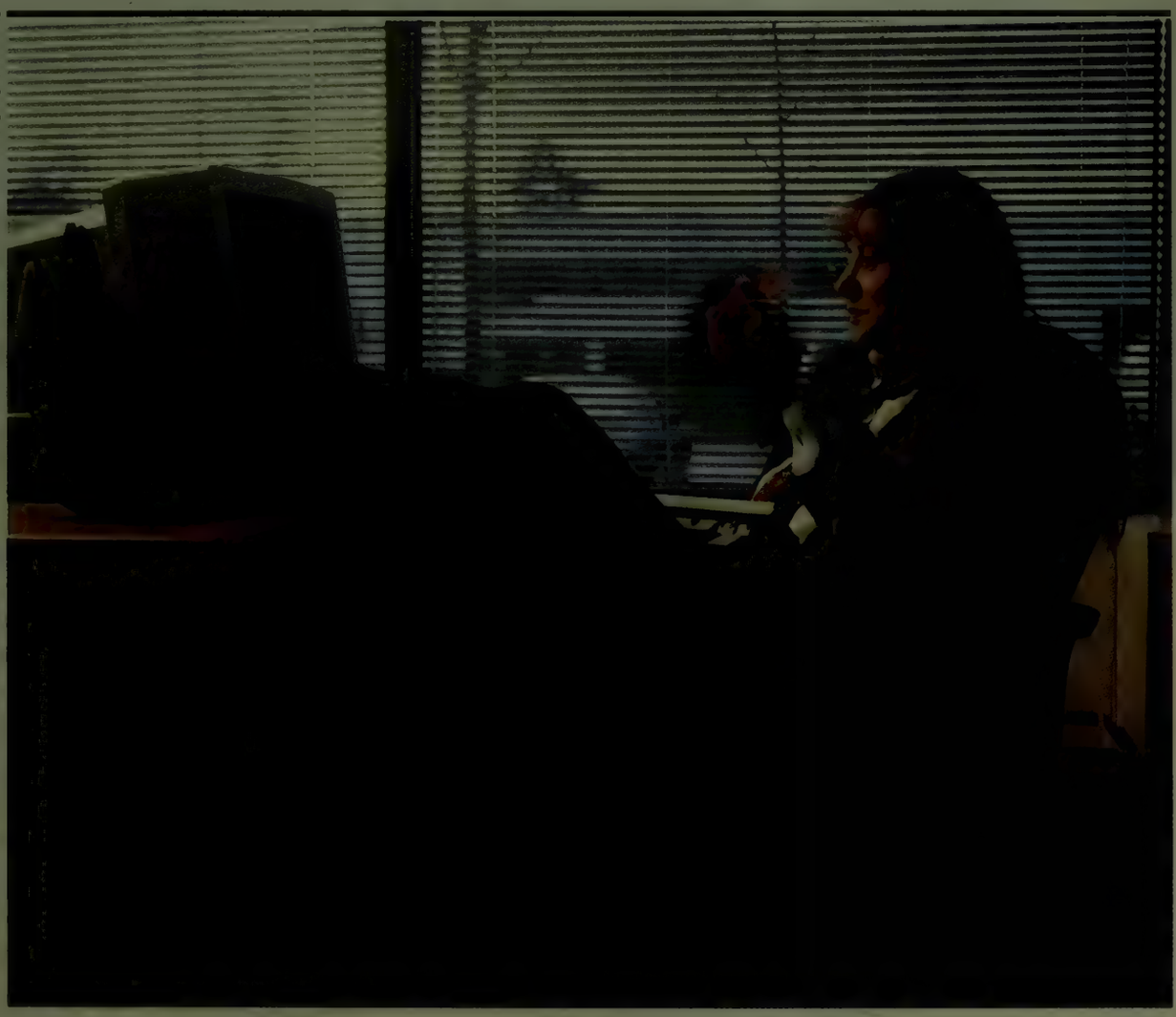
Says Morgridge about the founders: "They were basically selling to their peer group, through word of mouth. The initial customer set started with the lunatic fringe—the kind of people who are way out on the leading edge. The early people were very technical and tolerant. There's been a big shift in who uses the product."

No doubt a dose of button-down salesmanship was just what the company needed, but Lerner, whose job under Morgridge was running customer service, did not take well to the stranger on board. She and Morgridge squabbled constantly. He fired her in August 1990, at which point chief scientist Bosack quit.

Lerner and Bosack had begun to sell their Cisco stock as soon as the company went public. They have unloaded all their shares now, for a total of about $200 million. They have given away 70% of their fortune. Lerner supports zoos and animal welfare charities, while Bosack's pet cause is "alternative" technology; one of his grants was to a Harvard professor searching for extraterrestrials. Cisco's founders still have millions to fund their next venture. Now living in Redmond, Wash., they are working on Bosack's next invention, electronic circuitry to speed up the input/output process of computers.

Regrets? Scarcely any from Bosack, who had little interest in running a business day to day. "We had to ask ourselves the question, 'Do we want to run a company or do we want to make money?' For us, it was the latter," says Bosack. Lerner, however, is not as complacent. "Len and I underestimated our skills," she says. "I certainly could have run that business. I had my hands on the reins."

Like a lot of startups, Cisco had its share of growing pains. Unlike many of them, it was built on an idea strong enough to survive the early turmoil. ■



Photographs by Rich Frishman

LEFT: Leonard Bosack
RIGHT: Sandra Lerner
Secret of their success: They figured out how to get their computers to communicate.

The cost crunch.

Budgets get cut. Dema

Tradition has it that if you want something done for less, you do it yourself. So once again, the computer world defies tradition.

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Pen-based computing is supposed to be the new glamour sector of the lagging personal computer business. It could be a big disappointment.

The handwriting that isn't on the wall

By Julie Pitta

ASK A COMPUTER industry insider what the next hot technology will be and there is a good chance he will answer, "pen-based." There are at least 45 startups dedicated to creating either hardware or software to enable a personal computer to accept and store the scribblings of an electronic stylus. William V. Campbell, chief executive of GO Corp., perhaps the best known of these new outfits, can scarcely contain his excitement. "It will be the growth market of the 1990s," he says. "Pen and paper are something people are familiar with." Says Vern Raburn, chairman of Slate Corp., another pen software firm, "A pen fundamentally changes the experience of computing."

Pen-based computers indeed look friendly, and some have been in commercial use since 1989. But whether they will ever capture a significant fraction of computer sales, or keep 45 startups in business, is another matter. With personal computer sales slowing to single-digit growth, there is a tone of desperation to the hype, says William Bluestein of Forrester Research. Even in 1993, he says, pen-based computers will capture only 5% of the market.

Why not more? One reason is that the machines can't read handwriting, and won't be able to for several years. Today's models can handle only check-off boxes, block printing and some simple gestures (like circling a figure). Another is that the keyboard is only a small part of what makes computers intimidating. To use a spreadsheet program, for example, you have to know a hierarchy of commands and you have to think clearly about how different sets of numbers relate to one another. Pens don't alter that reality.

Where, then, are the pen computers likely to be competitive with the keyboard variety? Mostly where the user is walking around and so has only one hand free for input. Tandy has sold about 30,000 Gridpads for use by field workers collecting inventory and similar data. Sales representatives from Gerber Products, for instance, stroll down supermarket aisles with a Grid pen computer, taking notes on shelf facings for baby foods. The computers allow them to send data electronically to a database at division headquarters for quick analysis.

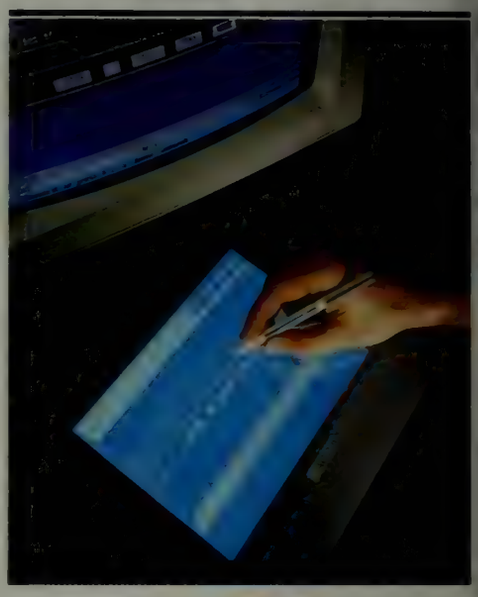
In this electronic clipboard market, Grid faces a lot of competition. NCR Corp. and Korea's Samsung have announced similar products. An offering from IBM using GO's software is expected by summer. The Japanese, having invested millions in handwriting recognition systems for their complex kanji alphabet, will inevitably join in. Communication Intelligence Corp., a new software company in Redwood City, Calif., offers an intriguing feature for pen systems: Using algorithms developed at think tank SRI, the program can verify signatures, taking into account that the way a person signs his name can vary.

How do pen computers work? Beneath the surface of what appears to be a standard liquid crystal display is a digitizer, a grid of circuits able to receive the electronic emissions of the stylus. The stylus either has a battery or bounces back electromagnetic waves broadcast from the grid.

The software allows gestures to be understood as commands. To enter a command, for example, a user takes the stylus and taps on a selection—"create a new file"—from a list of commands. The software also allows the computer to translate printed block characters into text data, with an average accuracy rate of between 90% and 95% for the first-time user. But it won't read scrawled notes and can't act on a written command like "Please erase that file." "These machines aren't the answer to the novice user," says Daniel Huttenlocher, a computer science professor at Cornell. "At least with a keyboard, when you type 'A,' you get 'A.' "

The pen-computing bulls also should not forget the price competition that will come from an older technology, the pencil and paper. Hardware startup Momenta Corp., gambling on a wider market, is pushing its computer—which sports both a keyboard and pen—through retail outlets. It costs $5,000. You can buy a lot of ballpoints and lined pads for $5,000.

Pen computer
But could it read a doctor's prescription?



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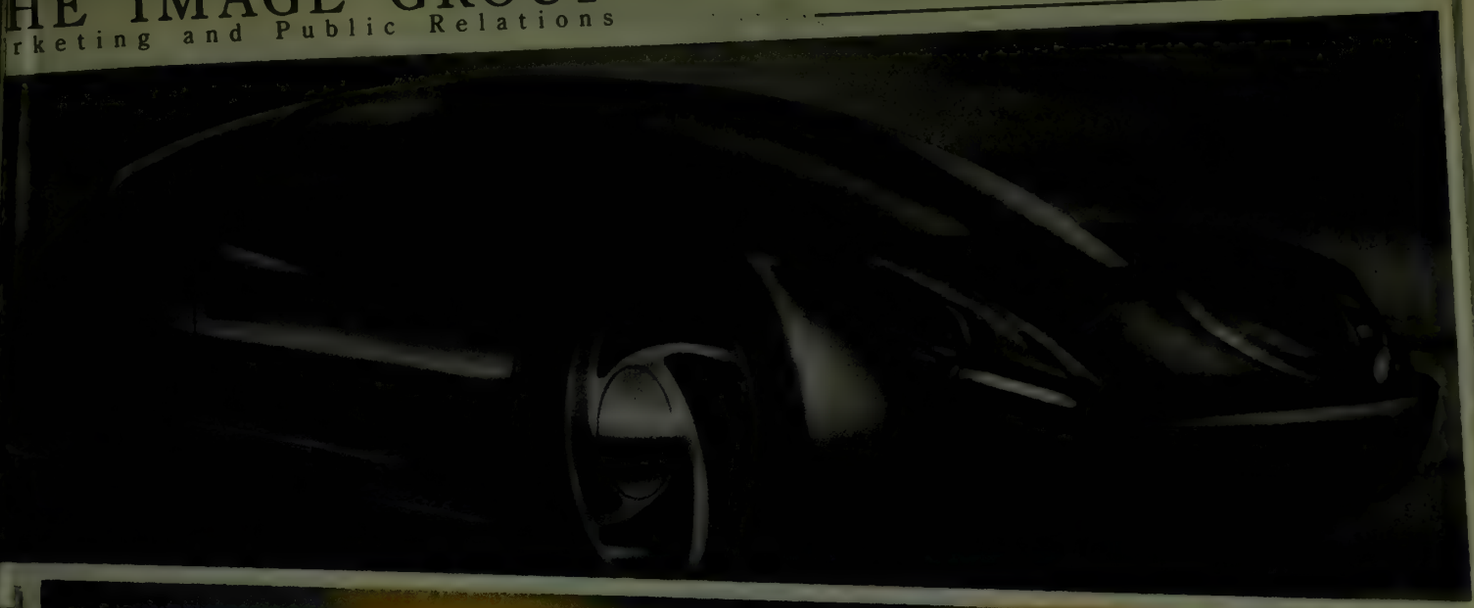

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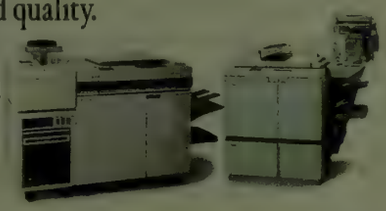

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Peer pressure

COMMENTARY BY RICHARD A. SHAFFER

Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter.*

COMPUTER NETWORKS don't have to be costly or complex to get the job done. Most people use a network only for sending messages to other computers in the same office, or for sharing small files from time to time. Which is why a relatively obscure Tucson, Ariz. company, Artisoft Inc., has prospered by making simple networks at a time when the more widely known names in networking—Novell, Microsoft and Banyan Systems—emphasize powerful, complicated systems. Think of it as personal networking.

Artisoft's networks are called peer-to-peer systems because they connect computers as equals rather than in the more common hierarchy known as client/server networking. The company has done so well that Microsoft is planning to incorporate peer networking in future versions of its Windows operating system. In addition, Novell recently launched its own peer-to-peer product. (Apple Computer has long had peer networking.)

At $99, Artisoft's product, called LANtastic, is much less expensive than the leading client/server design, Novell's NetWare, which sells for $895 or more, depending on the number of computers connected to it.

LANtastic isn't about to displace the Microsoft, Novell or Banyan systems that today connect millions of personal computers, particularly those used for critical jobs in large corporations. But its peer networking concept is clearly filling an important niche.

There's no agreement about the best way to connect desktop computers. Currently the most popular way is to let a central computer, or "server," run a sophisticated (and expensive) network operating system and act as the repository of files and clearing house for printing, electronic mail and other services requested by the "clients," all the other computers in the network.

By contrast, Artisoft says client/server networking is a relic of the past, nothing but a mainframe architecture transplanted to a desktop environment. According to this reasoning, the logical way to connect personal computers—as many as several hundred—is to let every PC act as both client and server. In this way the networking software can distribute an inexpensive and memory-efficient operating system all around the network.

Although the computer industry is in a slump, there's no slowdown in the rate at which computers are being plugged together. Peer-to-peer networking is growing especially rapidly because more computers are being sold to small businesses and home offices, which lack the budgets and staff needed to support complex networks. Other companies also are important in peer networking.

Among them are Sitka, a subsidiary of Sun Micro Systems, and Tiara Computer Systems. LANtastic until now, however, has been almost uncontested in peer networking for computers that use the DOS operating system, the largest group. In the six months just ended, Artisoft's sales were up 74% to $31.5 million, while earnings more than doubled, to $5.4 million. Artisoft's gross margin percentages are in the high 50s. This despite the fact that, in addition to networking software, the company also makes hardware, which is generally less profitable. One impressive new gadget is called Artiscribe, a digital dictation system that stores speech for later transcription. It also makes the Central Station, a small box used for connecting laptop computers and peripherals, as well as a wide assortment of plugs that connect network wiring.

The stock market has been appreciative. Artisoft went public last September at 16 and first traded at 20—despite an announcement, a few days earlier, that Novell was introducing its NetWare Lite (price: $99), intended to kill LANtastic. Artisoft's stock has since gone on to 30 (52 times earnings); the company is now trying to sell more shares to the public.

At present, I think LANtastic has little to fear from Novell. One reason is that, apparently in an effort to protect its more expensive products, Novell has limited to 25 the number of connections that NetWare Lite can handle. The LANtastic limit is 300. Moreover, reviews of NetWare Lite haven't been that good. Finally, the distribution systems are different. Artisoft sells through retailers, Novell through specialists who make most of their money by designing complex, extensive networks.

Still, Novell is flexing its muscle. For example, with early copies of NetWare Lite it gave away copies of DR DOS, its operating system that imitates the market leader, DOS from Microsoft. Later on, it may even find ways to combine the two products. Novell's strong brand image is also a potent selling point.

Microsoft also is a threat. Soon, I expect that Microsoft will try to make networking a plug-and-play feature of every Windows computer, with better performance and wide-area connectivity than Apple now provides.

In addition, a dozen or so small companies lately have jumped into the market to challenge Artisoft in peer-to-peer networking.

Artisoft is already taking defensive steps. The latest version of LANtastic works with Microsoft's Windows graphical operating system. In addition, Artisoft is expanding its network of retailers, strengthening its research effort and making a version of LANtastic that can plug into other networks.

As for the future of peer-to-peer networking, skeptics have only to visit the offices of Artisoft to see a serverless network supporting the activities of more than 200 computer users. It may not be fancy, but it works. ■

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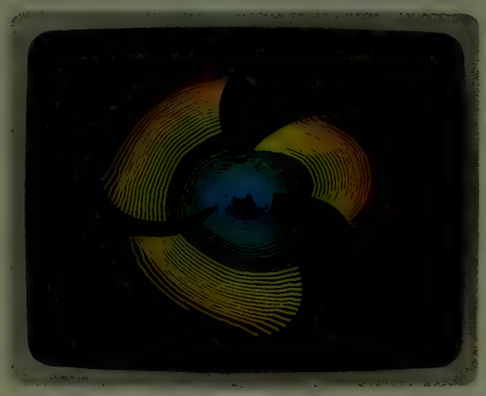

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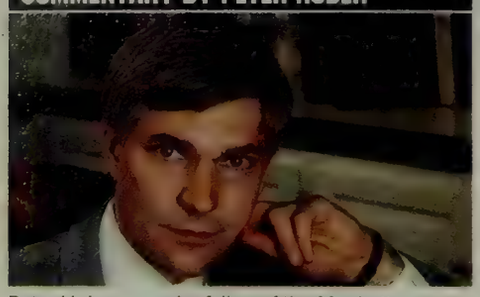
On money

COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of the just published *Galileo's Revenge: Junk Science in the Courtroom* (Basic Books).

WHILE EUROPE strains to give birth to a new currency, Boris Yeltsin toils to resurrect a dead one. With private markets triumphant everywhere else, however, the mystery is why governments still have to manufacture money at all.

It is still often taken for granted that the one thing private markets cannot make is money itself: Only government can do that. But new governments of young nations, especially nations with turbulent histories, can't make money, either. Nobody quite trusts them, and without trust the paper lovingly engraved at the government mint is valueless.

Until recently, people put up with a lot of government paper because even bad paper was more convenient than the alternative, which was barter. Every self-respecting capitalist knew that government paper was a perishable good, that it always decayed, slowly in Switzerland, fast in Brazil, and most just put up with it. But if capitalists can produce candies that melt in your mouth, not in your hand, why not currencies, too?

Money, as I wrote here two years ago (FORBES, *May 14, 1990*), is just another network, our oldest medium of systematic communication. And new communications technologies are fast surpassing the old. The paperless bank, unlike the paperless office, is at hand.

When it works, the old-fashioned paper we call money reliably records past effort and promises future return. It's all a matter of communication among stable communities of productive people. This is why individuals can issue currencies, too—personal checks, IOUs, that sort of thing. Once it's established of an individual that her word is her bond, she can in fact issue private currency at will, at least among people who know her.

But the trouble with private currencies has always been their informational overhead. Personal checks bounce, the "I" behind the IOU absconds to Monaco, Macy's defaults on its bonds. Private paper is also volatile; pegging current value requires specialized information from Wall Street, or a bank in Oshkosh, or a trading pit in Chicago. In the past, it's often been cheaper to put up with the steady but modest thievery of a central bank, which peels off 3% (will it soon be 6%?) of your dollar every year through inflation, than to sort out whose private paper is worth what at any given moment.

Computers and fiber-optic communications are changing all that. Our new central bankers can be concerns like TRW and Dun & Bradstreet, which track who's solvent and who's a deadbeat and convey the information instantly, at the touch of a button, wherever it's needed. Our new mints and engravers can be companies like Visa and AT&T, which clear millions of transactions daily, both here and abroad.

What enterprises like these supply are the informational ingredients of money. They already are far better than Alan Greenspan at stabilizing value by assembling baskets of private paper as varied and diversified as the global economy. Information about who earned a credit yesterday or who can be trusted to pay back a debt tomorrow can be passed around as easily as a dollar bill. More easily, in fact.

Like religious liturgies conducted in some otherwise dead language, transactions may still be denoted in dollars or yen, but these vestiges of an earlier age will ultimately give way to a new financial vernacular. If everybo paid for everything (wages include by credit card, for example, the a counts could just as well be denote in pork bellies, IBM stock, quarte pounders with cheese, or (more lik ly) some very large basket of hu dreds of different private goods an services, tangible and intangible.

The Lynch, for example, might b a share in a standard pool of com modity receipts maintained by Me rill Lynch. Nobody would fully tru the Lynch, of course, even if backe by 100% reserves, but nobody woul have to. Nobody trusts his food sup ply to any one farmer, either. Yo diversify, you assemble baskets of bas kets, and you constantly search fo quality goods and reliable supply Same with money. When the networ and the computers behind it are pow erful enough, no central authority can or should supply the currency any more than a central authority ca or should supply the sausage. Private money pays no annual tribute by way of inflation to the government mint. And with private money, private fortunes will no longer be held hostage to public ineptitude in the Kremlin or on Capitol Hill.

So back to Yeltsin and how we can help him. Despite the corrupting influences of the regulatory collectivists on our own shore, America's phone companies and banks are still the best in the world. Yeltsin needs them, far more than he needs the International Monetary Fund, Pizza Hut or Western investment in Russia's oil industry. Modern telefinancial enterprises can deliver the real oil of the economy: truly stable media of exchange.

The biggest contribution Yeltsin can make to Russia's fiscal policy is to make way for currency capitalists. No exchange controls, no bank insurance, no loan guarantees, no criminal prosecution for ordinary bankruptcy, nothing but basic, narrowly interpreted laws against outright fraud.

Will the new private banks sometimes fail? Of course they will. Will widows then be ruined? Certainly. So what else is new? In Russia today the only bank in town has failed miserably, and the one cold comfort for widows is that the ruin is universal. Give it a try, Boris. You have nothing to lose but your rubles. ■

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With an area the size of California and a population of only 3 million, New Zealand boasts a lot of walking-around room. But the Milford Track is special.

Rousseau without the lions

By Toddi Gutner

TUCKED AWAY in the southwest corner of New Zealand's South Island is a trail through a spectacular subtropical rain forest. Walking it is like stepping into a painting by Rousseau, minus the lions.

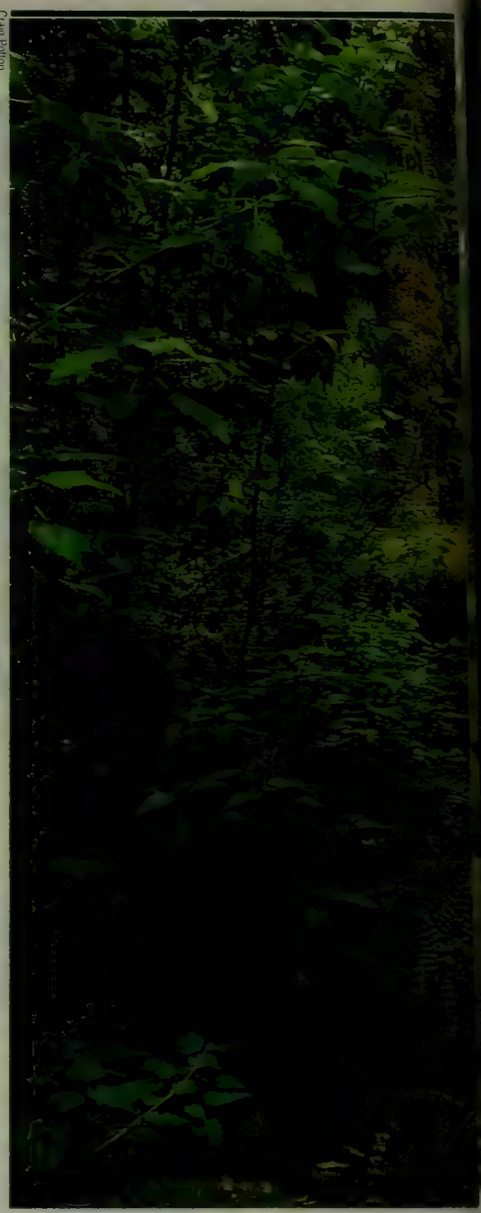
Called the Milford Track, the 33-mile trail through Fiordland National Park skirts hundreds of waterfalls and is roofed by a canopy thick with huge ferns, rimu trees and silver and red beech trees. The woods echo with the calls of exotic birds like the morepork, the bellbird, the paradise shelduck and, of course, the kea, the indigenous New Zealand mountain parrot that will steal whatever it can get away with. (Birds, and perhaps an occasional trout leaping in one of the glacial lakes, are about all the wildlife you are likely to encounter. There are no snakes in this Eden.)

The Milford Track, so named by seal-hunters from Milford Haven, Wales, links Milford Sound to the tip of southern New Zealand's Lake Te Anau. The trail is a relatively easy stroll—folks from 10 to 87 have managed it—that taxes the eye and the mind more than the body.

The track, as it's called down under, takes three days, and all that is needed are a good pair of hiking boots and warm clothing (there is a list of necessary clothes in Milford Track's brochure), binoculars and enthusiasm. The weather is often overcast and rainy, with temperatures ranging from 90 down to 40 (and below freezing with the wind chill), but that does not hinder the beauty and experience of the track. And you'll get plenty of solitude. New Zealand's Department of Conservation restricts the number of hikers to 82 per day.

The trek starts in Te Anau, which is a three-hour puddlejump from Christchurch, South Island's international port of entry. There are two ways of making the hike—independently as a "freedom walker" or on a guided tour. Freedom walkers stay in the national park's primitive huts and they must carry their own food, cooking utensils and sleeping gear. The cost is about $90 for the permit and transportation between the park and Te Anau.

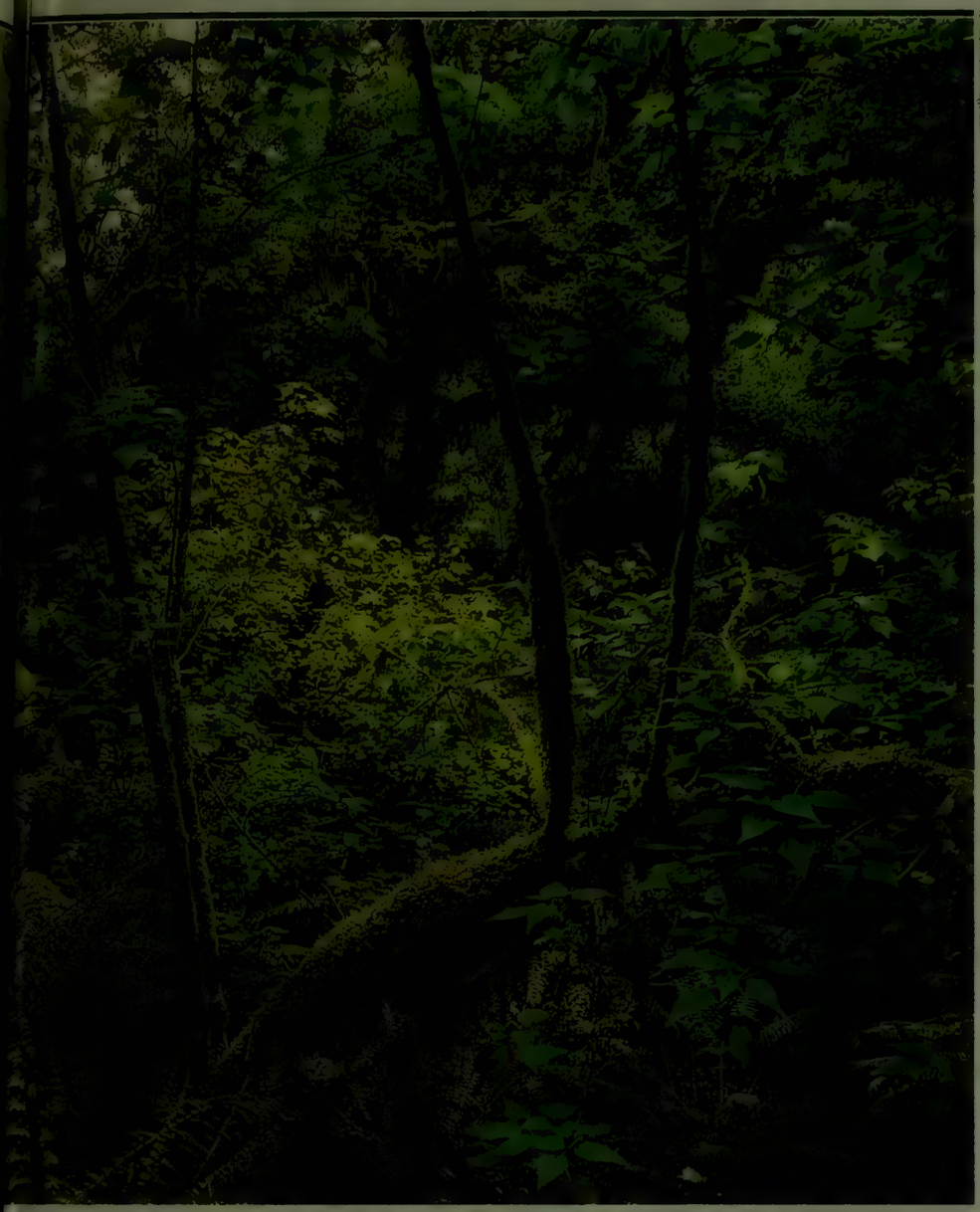
If you don't want to carry a lot of gear halfway around the world, take the six-day, five-night guided tour operated by the Tourist Hotel Corp. It includes guides, hot showers and home-cooked meals at three staffed



Cole Patton

Rain forest in Fiordland National Park, New Zealand **Parrots and other exotic birds are about all you're likely to encounter.**

The 33-mile course of the Milford Track **More taxing to eye and mind than to the body.**



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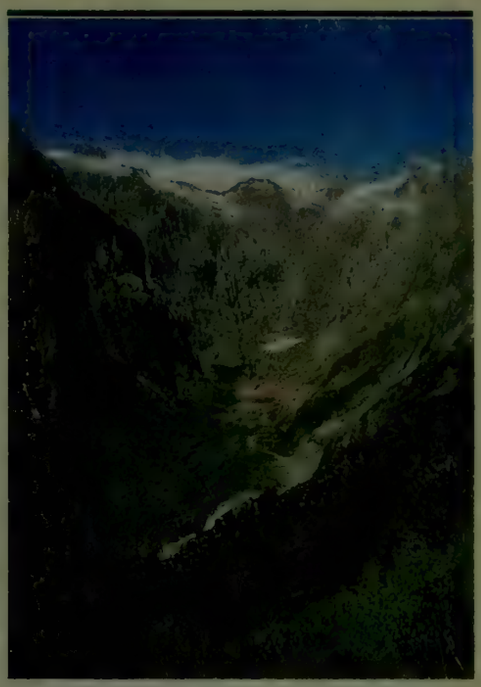

View of Clinton Valley from Mackinnon Pass
All in a day's trek.

huts along the trail. Also included are hotel accommodations in Te Anau and Milford for the nights before and after the trek, all transportation to and from the trailhead and a sightseeing cruise on the Milford Sound; the trip is priced at $610 to $735 per person, depending on where you buy. (Round-trip airfare from Chicago to Te Anau is around $1,200 to $1,600, economy.)

The guided trek begins and ends with a launch cruise. The 92-year-old *Tawera* ferries trekkers on a two-hour cruise from Te Anau Downs, across Lake Te Anau, a deep-blue glacial lake rimmed with the southern rata tree, which is spotted in red at full bloom. After the cruise, the hikers amble a half-mile up the path to Glade House for their first night's rest. The evening's entertainment consists of playing board games and singing national anthems, all designed to get fellow hikers acquainted. Our group consists of seven Americans, three Japanese, one Dane and five Australians, and ranges in age from 20 to 64. The remainder of the evening is devoted to a slide show about the flora, fauna and sights to be taken in during the next day's hike.

After a full breakfast the next morning, we cheerfully set out for a 10-mile, five-hour trek. For most of the day the trail covers flat terrain and hugs the Clinton River. The trail skirts the Black Forest, named for its gnarly beech trees and carpeted with moss and vines. It then climbs up to give trekkers a first glimpse of the towering walls of Clinton Canyon, scarred from huge landslides that destroy everything in their path.

The keas introduce themselves when we break for lunch. Keas are noisy and mischievous, not unlike North American magpies in their behavior, and will fly off with anything that is not securely fastened, usually a hiker's sandwich.

The remaining miles of the first day's track end with a rocky ascent to Pompolona, the second night's lodge. Nestled against the canyon wall, the rustic Pompolona is a warm, cozy haven. An old wood-burning stove and a seating area packed with overstuffed pillows keep trekkers comfortable. For entertainment, there are board games and an antique but operable pianola. We all join in a spirited sing-along of old favorites.

Up and out by 8 a.m., we face another 10-mile day, including the steep ascent through Mackinnon Pass, named after Quintin Mackinnon. He and another explorer, Ernest Mitchell, blazed the trail in 1888. There are 11 gently graded switchbacks on the ascent out of the Clinton Valley to Mackinnon Pass. Near the top, the narrow and rocky trail breaks out of the rain forest above the tree line. The trail's edge is lined with giant buttercups, known as Mount Cook lilies, and other alpine flowers.

When you look back down, the panorama of the Clinton Valley reveals the previous day's walk. A kea rests upon the memorial cairn erected to Mackinnon. One of the bird's rela-

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Jose Azel/Contact

LEFT: **The ridge between Clinton and Arthur Valleys.**

Jose Azel/Contact

LOWER LEFT: **Glade House, where hikers rest the first night.**

tives gets his claws into a bra strap dangling from one hiker's backpack, but another hiker wrests it back.

Suddenly, the temperature drops into the teens, the wind howls, clouds move in and it begins to rain.

After trekking briefly along the ridge (highest point 3,735 feet) of the pass between the Clinton Valley and Arthur Valley, we reach the Pass Hut. It is surrounded by imposing mountains and glaciers. A guide prepares hot drinks and soup to accompany sack lunches. Eager to begin the descent, the hikers file out for the three-hour trip down to Quintin Lodge, that evening's accommodation.

To avoid a dangerous avalanche area, the trail detours from its usual path and follows a steeper route along Roaring Creek into the lush rain forest of the Arthur Valley. Thick wire strung between trees at shoulder height gives trekkers the necessary handholds as they pick their way over slippery, moss-covered rocks.

From Quintin Lodge we take a side trail leading up to Sutherland Falls, the world's fifth-highest waterfall. Cascading down 1,904 vertical feet, it is 200 feet higher than Chicago's Sears Tower.

Thoroughly soaked, we return to the lodge and help warm ourselves with nips from a flask of brandy thoughtfully provided by one of the hikers.

That night's slide show reveals that the next day's hike, though mostly downhill and over easy terrain, will cover the longest distance: 13 miles, to the track's end.

The rain is still with us when we set out next morning, but we are reminded that without it there would not be the numerous waterfalls, nor the lush vegetation. This seven-hour portion of the track is set along the Arthur River and files past falls and lakes and out into wide open canyons with views of towering peaks.

We reach the final destination, Sandfly Point, late in the afternoon, four days after the trek began. Hot coffee, tea and a warm fire await. A brief launch cruise and short bus ride to the Milford Sound Hotel carries the group back to civilization. That evening, each group member is awarded a certificate of achievement in a festive dinner celebration.

The final day is a breeze. The only walking to be done is between the upper and lower decks of the boat that takes the group sightseeing on the Milford Sound. Seals and penguins play on the rocky shores as the boat ferries out to the Tasman Sea and back to Milford.

For more information contact the New Zealand Tourism Board, 501 Santa Monica Boulevard, Suite 300, Santa Monica, Calif. 90401; 800-388-5494. The hiking season in the park runs from the end of October to the first week in April—spring and summer down under.

Reservations for the guided walk can be made through stateside travel agents. For unguided "freedom walking," contact Fiordland National Park Visitor Centre, Department of Conservation, P.O. Box 29, Te Anau, New Zealand; phone: 64-3-249-8514; fax: 64-3-249-8515.

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By encouraging us to think of ourselves as victims and puppets, the politically correct bestseller "Backlash" is an insult and a disservice to women.

A whiner's bible

By Gretchen Morgenson

IN A TRIUMPH of political correctness over literary merit and common sense, Susan Faludi has a hot book on her hands. *Backlash: The Undeclared War Against American Women* has vaulted to near the top of the *New York Times* bestseller list. It has been on the list for over 14 weeks. It even won the National Book Critics Circle Award for nonfiction. Never mind that it is badly written, shoddily reported and insulting to intelligent women.

Backlash alleges that during the Eighties American women lost ground in their battles for equality and a significant role on the world stage. Today, Faludi argues, females are worse off than we were in the Seventies, when feminism was just taking off.

If you are naturally paranoid, you may like the book. It weaves an intriguing if improbable theory: Women today are the victims of a conspiracy perpetrated by the media, government, Hollywood, lawyers, fashion designers, and men of all stripes.

Women who pick up *Backlash* looking for a jaunty bit of male bashing will be disappointed. Faludi doesn't write, she pomposes. "The backlash has moved through the culture's secret chambers, travelling through passageways of flattery and fear," she writes, meaning heaven knows what. "If the American man can claim no ancestral coat of arms on which to elevate himself from the masses, perhaps he can fashion his sex into a sort of pedigree." Another musing: "Nothing seems to crush the masculine petals more than a bit of feminist rain—a few drops are perceived as a downpour." Yech!

Why has this claptrap made the bestseller list and won plaudits? It's a sign of the times. The book is politically correct in the worst sense. Therefore, all true believers—who infest the media—must rally round it. The persecution theme resonates in the vast and deep echo chamber that exists among women's pop culture magazines. Women's magazine editors, in constant search of something to slip in between stories on crash diets and new plastic surgery techniques, are happy to tout anyone talking up the women-as-victims theme. Faludi turned up in December in *Vanity Fair*, about the same time she scored three pages in *People* magazine.

Book reviewers—also part of the echo chamber—have been kind to *Backlash* as well. Reviews in the influential *New York Times Book Review*, the *New Yorker* and *Atlantic* were glowing. In all this praise there is a certain amount of logrolling: Author and columnist Barbara Ehrenreich called Faludi's book "a rich and juicy read, informed by powerful logic and moral clarity." Ehrenreich's own writings are cited no fewer than 12 times in Faludi's book.

Faludi tries to build her conspiracy theory by pelting the reader with factoid after factoid; she's also big on the supposedly telling anecdote. What results: a labyrinth of nonsense followed by 80 pages of footnotes.

Such footnoting may pass for "dazzling investigative powers," as reviewer Ehrenreich puts it. But a trip through Faludi's footnotes reveals that her case is largely built on a rehash of feminist works from the past two decades and a slew of dated magazine and newspaper articles. Lamentably few of Faludi's sources in *Backlash* are primary—odd, for an investigative reporter. Of the thousands of citations in her footnotes, most are quotes from books and articles that appeared in *Vanity Fair*, *People*, the *National Enquirer*, the *New York Times*, the *American Journal of Public Health*, the *San Francisco Chronicle* and other periodicals. *Backlash* is basically a clip-and-paste job.

Here's how the backlash allegedly works. A 1986 Harvard-Yale study said college-educated, unwed women over the age of 35 had but a 5% chance of getting married. According to Faludi, this study had an enormous impact on American women. Following the release of the Harvard-Yale study, women everywhere went into a simultaneous depression. We did? Then she claims the study pushed women to marry earlier than they had been marrying before. Oh? What's the proof? Faludi: "In a *Los Angeles Times* story, therapists reported that after the study's promotion, single female patients became 'obsessed' with marriage, ready to marry men they didn't even love, just to beat the 'odds.' "

Want to see more of the backlash in action? Start with the wildly popular 1987 film *Fatal Attraction*. The villain, a maniacal single working gal, loses her man to a beneficent homemaker—evidence, Faludi claims, that working women are resented by men. Move on to the fashion world. You may have thought Christian Lacroix was a designer whose clients were wealthy, frivolous females; wrong again. Lacroix is a backlash co-conspirator, humiliating women by dressing them as "daddy's little girls."

Plastic surgeons are in the backlash gang, too. They don't operate on women because they're asked to; they put women under the knife to control them. After all, "women under anesthesia don't talk back," says Faludi.

Though the media has rallied around Faludi, she considers newspapers and magazines, including FORBES, major contributors to the backlash. For instance, Faludi argues

James Wilson/Woodfin Camp

Bestselling author Susan Faludi
Many of her facts are fiction.

hat one 1986 story in *Fortune* discouraged oodles of women from applying to M.B.A. schools and pursuing a career in commerce. "The *Fortune* story left an especially deep and troubling impression on young women aspiring to business and management careers." Her conclusion: "The year after *Fortune* launched the 'bailing out' trend, the proportion of women applying to business schools suddenly began to shrink—for the first time in a decade."

Interesting. But wrong. There was no shrinkage following the *Fortune* story. According to the American Assembly of Collegiate Schools of Business, which reports on business school graduates, the proportion of women graduates increased every year from 1967 through 1989, the most recent figures available.

There is more such disinformation. As evidence of the backlash in the beauty business, Faludi states that in the recent past fewer and fewer plastic surgeons were operating on women "who might actually benefit from plastic surgery." Instead, most of these misogynist doctors were performing more frivolous but profitable face-lifts, breast enlargements and liposuction, thereby "improving their own control over their patients." As a result, according to *Backlash,* the number of reconstructive operations performed on burn victims and breast cancer patients declined in the late Eighties.

Not according to the American Society of Plastic & Reconstructive Surgeons in Illinois, the outfit Faludi claims as her source. The society says that reconstructive breast surgery increased 25% from 1988 to 1990; between 1981 and 1990, 114%. Total reconstructive surgery increased 4% in the last two years of the decade and 70% from 1981.

So women have made little progress in the executive suite? The U.S. Bureau of Labor Statistics reports the percentage of women executives, administrators and managers among all managers in the American work force has risen from 32.4% in 1983 to 41% in 1991. Faludi ignores such inconvenient facts. She writes: "Women were pouring into many low-paid female work ghettos."

To determine exactly how many women "poured" into these ghettos, turn to the notes for this documentation: "The secretarial pool, for example, went from 98.9% female in 1979 to 99.2% in 1986." Sound like a tidal wave? It's a three-tenths of 1% increase over seven years.

When asked about these discrepancies, Faludi dithers and has trouble recalling sources other than vaguely related magazine articles.

Faludi is a reporter for the *Wall Street Journal,* and reporters don't make big money; so you can't blame a reporter for wanting to supplement her income. The trouble is that this kind of book is damaging to women. In encouraging women to think of themselves as victims, Faludi discourages them from making the efforts required to succeed in a murderously competitive society; people who feel sorry for themselves don't usually put forth maximum effort.

The women Faludi describes react to backlash stimuli like so many marionettes on strings. To the millions of spirited, accomplished females in this country, this is deeply insulting. Only mindless bimbos can be maneuvered the way women in Faludi's world seem to be. How many women do you know who would retreat, sobbing, into the kitchen because of something they read in a magazine?

In the opinion of this career woman, *Backlash* is a last gasp of Seventies feminism, a final attempt to rally women to a shrill, anti-male cause that has been comatose for years. ■

The good life

ALAN J. HIRSCHFIELD has carved out an enviable lifestyle since 1984, the year he left 20th Century Fox Film Corp. "by mutual decision" with then-owner Marvin Davis. He repaired to a luxurious log cabin in Jackson Hole, Wyo., where he hikes, skis and fly-fishes. From time to time he flies to one coast or the other, to minister to troubled companies.

Made famous in David McClintick's *Indecent Exposure* as the chief executive who had to deal with the David Begelman embezzlement scandal at Columbia Pictures in the late 1970s, Hirschfield started his career as an investment banker at Allen & Co. Now he's making deals again.

In 1990 Hirschfield teamed up with Allan Tessler as co-chief executives of Financial News Network Inc. and its 47% owner, Infotechnology Inc., which were on the verge of bankruptcy. They persuaded creditors to hold off until they sold two assets, FNN to CNBC and the 51%-owned Learning Channel to the Discovery Channel. Then they put the companies through bankruptcy to cleanse them. Next month they hope the court will allow their management group to emerge with a 30% stake in what remains of FNN: Data Broadcasting Corp., which provides stock data to individual investors, and Shark Information Systems, which serves professional traders.

On another front, Hirschfield has been hired to restructure Carolco Pictures, the shaky independent studio, and its 54%-owned Live Entertainment Inc., a home video company.

"Honest and truly, I never really enjoyed being an operating executive," says Hirschfield, now 55. "To me, the most creative thing you can do in business is take a business that's failing, or languishing, and make it work successfully. Once it gets that rhythm, my interest starts to fade."

–KATHRYN HARRIS

Laurance Aupoy

Former studio boss Alan Hirschfield **Life after the Begelman scandal.**

BELOW: Money manager Laura Sloate **"I never thought of myself as a minority."**

Blind ambition

LIKE MOST SUCCESSFUL women, Laura Sloate—who has been blind since she was 6—doesn't think of herself as a victim or a member of a minority group. *(For a related story, see p. 152.)* But to states like California and Pennsylvania, which want public pension funds to hire minority-owned investment firms to manage some of their assets, women and blind people count as minorities. A 47-year-old money manager, Sloate points out that the states' definitions make her a double minority, and if that helps her expand her business, she's not going to complain. "I've never thought of myself as a minority," she says, "but I decided that it made good business sense to take advantage of the rules."

Sloate started her own money management firm in 1974, when she was 29; she now manages over $300 million, primarily for individuals. Her forte is rigorous research that relies on copious consumption of information. She gets much of her information by listening to high-speed tapes of analysts' reports and trade journals and talking computers that scan documents and databases. The return on her largest limited partnership—$67 million assets—has averaged 17.8% for the last four years, slightly better than the S&P 500.

After failing to break into the minority management business on her own two years ago, she brought the idea to Bear, Stearns & Co., which has cleared her trades for 18 years. "I told them: 'I can't get money without you, and you can't get money without me,' " Sloate says. Bear, Stearns bit.

The new outfit, to be called Sloate, Weisman, Bear Stearns Capital Man-

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agement Inc., will be launched at the end of the month. Sloate will own 55%; Bear, Stearns will control the rest. Carol Bellamy, onetime New York City Council president and a Bear, Stearns managing director since 1990, is chairman. Well connected among state and local government officials, Bellamy will take care of marketing while Sloate picks the stocks.

Which stocks does she like in the current market? Allied-Signal (she likes new management). International Game Technology ("Gambling is exploding; I'm not sure I'd buy at 59, but I would buy on any weakness"). And Schlumberger ("Under 60, it is the class act in world oilfield services"). –LISA GUBERNICK

Gold medals for cost-cutting

TWELVE COMPANIES paid $170 million to be official sponsors of the 1992 Olympics. Unfortunately for Brian McGrath, some sponsors are wondering if they could have received just as much Olympic goodwill for a lot less money.

McGrath, a 49-year-old American, is president of ISL Marketing, a Lucerne, Switzerland-based company that woos sponsors for the International Olympic Committee. He learned about television during stints at Viacom International, Columbia Pictures and Coca-Cola Television, and joined ISL last fall after several top executives left the company to start a competing firm.

McGrath's problem: Companies have figured out how to bask in Olympic glory without paying ISL's hefty sponsorship fees. Visa, for example, paid $20 million for its sponsorship of this year's winter and summer games; that money goes to the International Olympic Committee. But rival American Express has paid just $150,000 to sponsor the U.S. cycling and swimming teams. AmEx's money goes directly to the teams, and AmEx can then advertise its support heavily. Likewise, Eastman Kodak is paying a big fee to be the official film of the 1992 Olympics but Fuji Photo has a six-year contract to sponsor the U.S. track and field teams.

"It's a real problem with our sponsors and it's a real problem with the International Olympic Committee," says McGrath. "But it's very diffic to police." McGrath insists he w raise more than this year's $170 m lion for the International Olymp Committee's winter 1994 and sur mer 1996 games. His former emplo er Coca-Cola has already signed u for $40 million. But Kodak still has t negotiate its fee, and Visa is evaluatin what recognition it received for th year's sponsorship fees before com mitting to the next Olympics.

–LINDA KILLIA

Remi Benali/Gamma-Liaison

Leong Ka Tai/Woodfin Camp

ABOVE: Olympics sponsorship salesman Brian McGrath **It's hard to keep sponsors on the reservation.**

Daniel Ng, managing director of McDonald's in Hong Kong **"Kids don't go to Chinese teahouses anymore."**

East eats West

THE CHINESE may rival the French i culinary chauvinism, but 7 of the 1 busiest McDonald's restaurants in th world—each with more than 2 mil lion transactions a year—are situate in Hong Kong. "For Chinese, a American hamburger is ethnic food," jokes Daniel Ng (pronounced Ing) managing director and one-thir owner of McDonald's Restaurant (Hong Kong) Ltd. The U.S. paren owns the other two-thirds.

A Hong Kong-bred, U.S.- an U.K.-educated chemical engineer Ng, 55, set up McDonald's firs Hong Kong outlet in 1975 afte meeting McDonald's executives through a local venture capital company. Ng set a low-price strategy with the world's cheapest Big Macs—$1.15 apiece today, versus about $2 in most U.S. outlets—and bought many of his store sites.

Today 60 McDonald's outlets—52 of them company-owned and 8 franchised—feed 250,000 people a day in Hong Kong, more than 4% of the colony's population. The average outlet serves more than twice as many customers a year as a U.S. McDonald's restaurant does. "Kids don't want to go to Chinese teahouses anymore," says Ng. "They want to go to McDonald's."

Ng will open 6 to 8 new outlets this year, including his second outlet across the border in China's Guangdong Province. The first Chinese McDonald's opened in October 1990 and is a huge success. With his double-digit sales growth, Ng shuns the parent company's pizza and salad experiments. "Our next new product is large coffee," he quips.

–ANDREW TANZER

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Source: 1991 MMR (HHI $60,000+)

BY ERIC S. HARDY

it time for value again? In the percharged bull market of 1991, owth stocks—those trading on pes for future earnings and/or sales ins—comfortably outperformed e more conservative value stocks, e ones trading on the strength of eir earnings, balance sheets and eakup values. But during the six eks ended Feb. 20, Sharpe/Barra's owth stock index lost 4%, while its lue index gained 3%.

Denis Laplaige, manager of the lainstay Value Fund, thinks it's high me for value stocks to make a come-ack. "The gap [in P/E ratios] be-ween growth stocks and cyclicals is as ide as I've seen it in 15 years," he ys. Laplaige's portfolio sells at 16 mes trailing earnings, versus the arket's multiple of 26. Some recent dditions include GenCorp and Mark V Industries. Laplaige also likes a few nance companies, such as Beneficial nd Green Tree Acceptance.

Special focus

As a group, the S&P 500 sells for 26 times trailing earnings. But, as Josh Weston of Automatic Data Processing Inc. points out, the earnings figure incorporates losses of moneylosing firms. Remove the 88 losers from the index and the remaining firms are trading at an average 18 times earnings.

Valuation of the S&P 500

S&P 500 P/E (excluding negative earnings):	18.2
Number of S&P 500 companies with:	
P/Es greater than 25.6:	104
P/Es between 25.6 and 15:	180
P/Es less than 15:	124
Negative earnings:	88
Not available:	4

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	–0.2%	18.0%	–1.8%
Sharpe/Barra Growth index[1]	–1.2	20.0	–4.6
Sharpe/Barra Value index[2]	1.6	13.5	–0.5
Dow Jones industrials	1.7	13.5	0.1
S&P 500	–0.3	13.4	–1.6
NYSE	–0.1	14.7	–1.4
Nasdaq	1.5	41.6	–2.0
Amex	–0.3	20.8	–1.5
EAFE[3]	–5.9	–9.9	–23.8
CRB index[4,5]	–0.9	0.0	–22.4
Gold[5]	–0.6	–2.6	–29.7
Yen[5]	2.3	–2.2	–21.6
Oil[5]	–4.9	0.5	–54.9

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Showboat	14	47%	$0.72	MGI Pharma	11 7/8	–47%	$–0.97
Basic American Medical	18	41	NA	MESA Inc	3 1/8	–39	–0.54
Society For Savings Bncp	9 1/8	40	NA	Centocor	34	–34	0.71
Grand Casinos	23 1/4	39	0.30	Menley & James	10	–30	NA
Oneita Inds	22 7/8	38	1.20	Cambridge NeuroScience	8 1/4	–30	–1.01

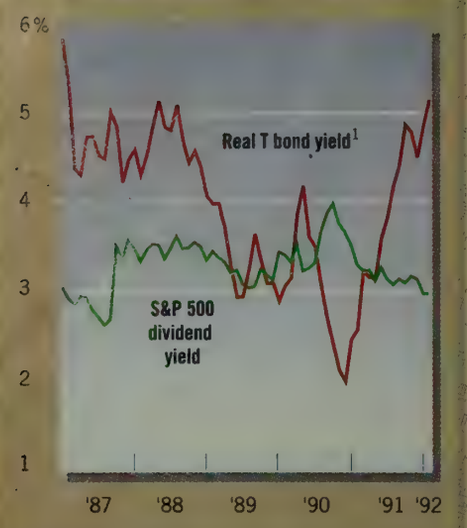
The best and worst performing industry factors[8]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Forest products	12.9%	35.2%	Tobacco	–6.7%	–1.2%
Motor vehicles	9.6	28.3	Coal & uranium	–6.4	–13.9
Water transport	9.5	10.3	Health care	–5.7	–9.4
Aluminum	9.4	0.4	Cosmetics	–5.3	–1.0
Trucking	7.8	14.1	Pollution control	–5.0	–2.8

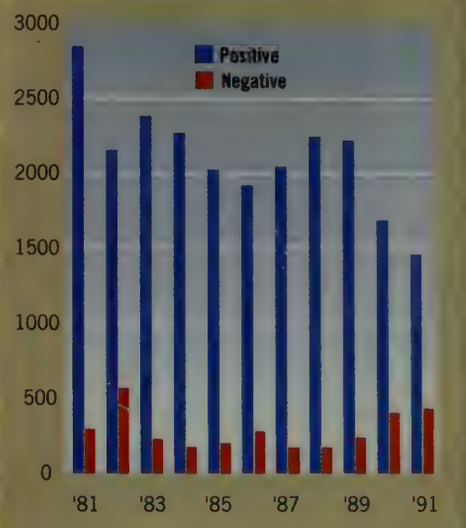
Note: Data for period ending 2/20/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

BY GILBERT STEEDLEY

Corporate vs. government yields



Corporate dividend revisions



Stocks are now trading at 34 tin dividends—that is, the average yi in the market is a mere 3%. By histo cal standards, a multiple of 34 tin cash payout is a fairly rich price. A dividends destined to climb brisk The recent news isn't good. Divide cuts and omissions are runni high—22 in January of this year.

After averaging a 7% annual grow rate through the 1980s, dividends the S&P 500 increased just 1% 1991. Last year was the worst year f dividend increases in two decades only 1,086 firms raised dividends.

A moderate rebound is expect for dividends in 1992. Gregory Smith, chief investment strategist Prudential Securities, predicts a 5 rise for S&P 500 dividends.

The dividend picture is particular bright in one sector: pharmaceutical Ronald Nordmann, a drug analyst PaineWebber, says that Scherin Plough can expand both dividend and earnings by better than 15% fo the next several years. Nordmann als likes Syntex, which is currently yield ing less than the industry average 2.5%, but he thinks it should delive dividend growth of about 18% pe year through the mid-1990s. The ta ble at lower left shows other stock with good dividend growth records.

Representative industry yields

Industry	Yield	Payout ratio[2]	P/E	Industry	Yield	Payout ratio[2]	P/E
Automotive	4.4%	NM	NM	Household Prods	2.1%	40%	21
Banking	3.1	49	27	Petroleum	5.3	101	16
Basic chemicals	4.1	71	17	Pharmaceuticals	2.3	48	25
Electrical Equipment	2.7	43	16	Retail	1.6	40	24
Electrical utilities	6.4	67	13	Telecommunications	4.6	67	18

Solid dividends

Company	Price	Indicated rate	Yield	Payout ratio	Dividend growth[3]
Automatic Data Processing	46½	$0.40	0.9%	23%	16%
CPC International	80	2.20	2.8	47	13
Dillard Dept Stores	130¼	0.24	0.2	4	14
Interpublic Group	57	0.84	1.5	34	16
Medtronic	80⅛	0.48	0.6	19	16
Rubbermaid	32⅞	0.34	1.0	35	18
Sara Lee	51⅛	1.00	2.0	34	19
Schering-Plough	56¼	1.32	2.3	44	24
Sigma-Aldrich	47¾	0.25	0.5	16	15
Syntex	47⅛	0.92	2.0	48	23

Doubtful dividends

Company	Price	Indicated rate	Yield	Trailing EPS
Arkla	9⅝	$1.08	11.2%	$0.28
Ford Motor	38⅝	1.60	4.1	–4.89
General Motors	39	1.60	4.1	–7.49
Nevada Power	18½	1.60	8.6	0.38
NS Group	7¼	0.12	1.7	–1.75
Outboard Marine	25	0.40	1.6	–4.15
PS Group	27¾	0.60	2.2	–6.39
Sierra Pacific Res	23¼	1.84	7.9	1.66
Sterling Chemicals	4⅞	0.30	6.2	0.24
Tenneco	39¼	1.60	4.1	–5.62

Note: All data, except where footnoted, as of 2/20/92. [1]Yield on 30-year Treasurys adjusted for inflation using the trailing 12 months' increase in the Consumer Price Index. [2]Capitalization-weighted. Dividends divided by net income; all extraordinary items are excluded. [3]Five-year growth rate. NM: Not meaningful. Sources: Media General, Value Line, via Lotus One Source; Standard & Poor's.

the 1980s Mario Gabelli's media stocks re hot and he was a hero. Was Mario ohnny-one-note?

Yesterday's headline?

HEN media and communication cks were in fashion, Mario Gabelli d the Midas touch. His first mutual d, the Gabelli Asset Fund, re-ned a spectacular 20% annually m its inception in 1986 through 88, compared with 9% for the S&P 0. Gabelli was profiled in FORBES *ly 15, 1977, June 1, 1987 and July , 1989)*, became a frequent guest on e television program *Wall Street eek* and sat at the annual *Barron's* undtable of smart money manag-s. He attracted money—lots of it. At peak, Gabelli Funds Inc., in which is the majority shareholder, had $7 llion under its wing.

Gabelli's strong suit was his meth-d of determining the private market lue of public companies. He did this y looking at their "free cash flow": rnings before depreciation, interest d taxes, but after necessary capital utlays. As it happens, newspaper, ble television and telephone com-anies look good by this method, and abelli bought them heavily. He und other free cash flow plays in ther sectors, and they often turned to takeover targets. The stocks went p, and investors, both institutional nd individual, lined up to place mon-y with Gabelli.

Alas, once Gabelli's hot hands at-racted a lot of money, they turned old. Over the past three years the 1% average annual return of the Ga-belli Asset Fund and the 8% average nnual return of the closed-end Ga-belli Equity Trust have lagged the S&P 500's 15%. Investors in Gabelli's rivate accounts are hurting, too, with an 8% three-year average annual return through 1991, according to CDA Investment Technologies. (CDA's calculation, based on quarterly reports of stock holdings, ignores cash and bond positions.)

Gabelli's mistake was in being too bearish in 1991. For instance, the Gabelli Convertible Securities Fund entered 1991 with 67% of its assets in cash and finished with 54% in cash. So in a year when the average convertible bond fund returned 30%, Gabelli Convertible Securities posted a mere 12% gain.

Too, Gabelli's value-oriented stock picking has fallen out of fashion. But recently Gabelli has lagged fellow value seekers as well, such as the Mutual Beacon and Lindner funds and Selected American Shares.

Is Mario Gabelli a has-been, just another of the Wall Street whizzes who rode a single trend to its exhaustion and then lacked new ideas? The jury's still out.

With the exception of Elizabeth Bramwell, who runs his Growth Fund and has fared very well on her own, Gabelli is reluctant to delegate power. He has ten analysts working for him, but he makes the investment decisions for six mutual funds with $1.8 billion in assets and all the partnerships and private accounts.

Gabelli clearly has no intention of deserting his cherished media stocks. In Gabelli Asset Fund's Sept. 30 annual report, he said he expects their values to climb as consolidation occurs among deliverers of information. At year-end, 36% of Gabelli Asset Fund's holdings were in broadcast-

John Abbott

Mario Gabelli of Gabelli Funds

He's not about to sell his cherished media and communication stocks now.

Diminishing returns

Fund	Total return 1 year	Total return 3 years (annualized)	Assets ($mil)
Gabelli Asset	18.1%	11.0%	$484
Gabelli Convertible Securities	12.5	NA	93
Gabelli Equity-Income	NA	NA	0
Gabelli Equity Trust*	16.8	8.3	595
Gabelli Growth	27.6	18.3	423
Gabelli Small Cap Growth	NA	NA	26
Gabelli Value	19.9	NA	575
Standard & Poor's 500 Index	22.7%	15.0%	—

Returns through Jan. 31. Assets as of Dec. 31. *Closed-end. NA: Not available.
Sources: Lipper Analytical Services; Morningstar; Forbes.

Gabelli has fallen behind the S&P 500 and even behind other value managers such as Mutual Beacon and Lindner funds.

ing, cable, entertainment, publishing and telecommunications stocks.

In one respect his past success has been self-fulfilling. By attracting money and putting it into media stocks, Gabelli has helped fuel their rise. A case in point is Telephone & Data Systems, a smallish company with a cellular business and rural telephone operations. Gabelli's accounts own 10.5% of the common stock, which has climbed 800% in seven years and is now going for 50 times earnings. If redemptions ever forced Gabelli to unload his stake, the stock would be in serious trouble.

As if to hedge his bets, Gabelli has been branching out into new fields. In the past six months he has opened two new open-end funds, Gabelli Small Cap Growth and Gabelli Equity come. Also, last October he rai $63 million in capital for his clos end Gabelli Equity Trust by issuin shareholders rights to buy additic shares at a 20% discount to the mar price. In an offering like this, sh holders have to exercise or sell th rights to avoid losing money. C rently Gabelli is contemplating bri ing out a balanced fund, some bo funds and a few money market fun

All this new money will help fill gap left by departing investors. L year the Gabelli Value Fund suffe more than $300 million in net wi drawals, and Gamco Investors, whi handles $4 billion in partnership, p vate and pension clients, lost a net over $500 million through withdra als. A doubling in size of the $4 million Gabelli Growth Fund, ma aged by Bramwell (FORBES, *Nov. 2 1989*), helped offset the withdrawal

Gabelli may yet make a comebac but there is nevertheless a caution be drawn from Gabelli's explosi success in the 1980s: Beware the ma ket sector, or the manager, whose h performance is to some degree a sel fulfilling prophecy. —S.O. ■

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delity Magellan can't buy meaningful positions tiny o-t-c issues. Skyline fund can.

Hogs and hailstones

Toddi Gutner

ALUE MANAGERS are stock pickers no lean toward companies trading at w multiples of their earnings, divinds or book values. The runaway ll market of the past several years s been very kind to growth and not kind to the value types.

There is an exception to every rule, owever, and this rule's exception is illiam Dutton, the 38-year-old forer accountant who manages the yline Special Equities Portfolio. his $50 million load fund (3.85% aximum) owns no U.S. Surgical, no Val-Mart, no Home Depot. Instead, owns shares in a sausage manufacrer, a blister-pack firm and a funeral arlor chain, among 60 other posions. What these stocks have in comon is that they are fairly cheap—aking them value stocks. They have n average price/earnings ratio of 15, ompared with the market's 26. That asn't prevented Dutton from delivring a 20% compound annual return ver the past three years, outpacing he S&P 500's 15%.

Dutton makes a virtue of his fund's iny size by targeting stocks with averge market capitalizations of $200 illion. Name-brand funds like Twentieth Century Select Investors (assets, $4.6 billion) and Fidelity Magellan ($19 billion) can't compete with him there. To place even 1% of its assets in a Dutton-size target, Magellan would have to gobble up all the stock. The Skyline fund, however, can establish a significant stake without disturbing the target's price.

One of those stakes is 17,000 shares of Thorn Apple Valley. This hog slaughterer has revenues of $800 million but a market value of only $120 million. Dutton bought in three months ago at an average price of 33, or six times trailing earnings.

"Low-P/E stocks have good potential appreciation without a lot of risk," Dutton says. He trims back on winners that appreciate to more than 3% of the portfolio and sells out of a stock when its multiple climbs above the market's multiple or that of its industry. "As a stock's P/E appreciates, the stockholder's expectations are greater and so are the risks," says Dutton. At a recent 38, Thorn Apple Valley hasn't gone up enough to be at that danger point yet. Dutton expects Thorn to increase earnings per share by 8% to $6 in 1992, as it further expands beyond prime cuts of fresh pork into smoked sausage and turkey products.

Another Dutton cheapie is Allied Group, a Des Moines, Iowa-based property and casualty insurer that has suffered from unusually high claims in the past two years from hail damage to homes and autos. Dutton is betting hail doesn't strike in the same place thrice. He is also encouraged by Allied's ability to raise the premiums it charges for auto insurance as several large competitors have withdrawn from its midwestern market. This year Dutton thinks earnings per share will grow at least 50 cents, to $2.50. At a recent 19, the stock is at just 10 times earnings. Better still: It trades at book value, in a market where the average price/book is 2.3.

Other financial stocks in the Skyline portfolio: insurers Protective Life and Mutual Assurance, both of Birmingham, Ala., and Integon Corp., in Winston Salem, N.C.; Independence Bancorp, in Perkasie, Pa., and Cullen/Frost Bankers in San Antonio.

Imagine buying into the drug business at 12 times earnings. Dutton did that, buying shares of PCI Services, a newly public $67 million (revenues) firm that packages pills in tamperproof blister packs.

The mortuary firm is also in line with Dutton's value standards. He began buying Stewart Enterprises, a $138 million (revenues) owner of cemeteries and funeral homes, last October at 18. The mom-and-pop-dominated funeral business is consolidating, and Stewart is making acquisitions. It is also building funeral homes at many of its cemeteries to make the ceremony and burial more convenient. The stock recently traded at 20, 15 times trailing earnings.

On the expensive side, Dutton holds Comair Holdings, a small regional commuter airline feeding into Delta's Cincinnati and Orlando hubs (P/E, 20). But General Physics, an $85 million (sales) training and technical support firm for nuclear power, trades at Dutton's more typical P/E ratio of 15.

Dutton may envy the billions flowing into the coffers of the Twentieth Century funds, but what's wrong with his profitable little niche?

Dutton's picks

Company/business	Recent price	Latest 12-month EPS	Latest 12-month P/E	Estimated 1992 EPS
Arctco/snowmobiles	13¾	$1.02	13	$1.25
Arctic Alaska Fisheries/fishing fleets	8½	1.01	8	1.15
BEI Electronics/rocket systems	8⅞	1.00	9	1.15
Idex/pumps, clamps	19⅝	1.41	14	1.60
McGrath RentCorp/modular offices	16	1.34	12	1.50
Oceaneering Intl/oil & gas services	10⅝	0.56	19	0.90

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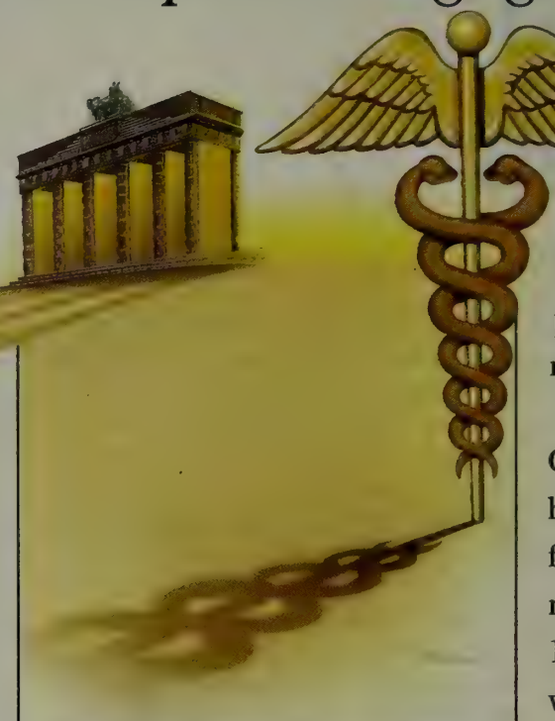

When growth-minded businesspeople need to acquire the latest equipment — anywhere in the world — GE Capital Commercial Equipment Financing comes through. When a group of German doctors needed radiology equipment to set up a clinic in what used to be East Germany, GE Capital provided the DM 6.9 million they needed.

Seeking to refinance $76 million in turnpike bonds, the State of New Hampshire put together a fixed/variable rate structure combining Dutch auction and residual interest bonds. This enabled them to sell the debt at variable rates without interest rate risk. To increase the bonds' value, the state needed a guarantor skilled in evaluating its credit-worthiness as well as the complexities of such relatively new structures—at a competitive price. One insurer met these criteria: GE Capital subsidiary Financial Guaranty Insurance Company.

When Operation Desert Storm began, the U.S. had to ship vast amounts of materiel to the Middle East. On very short notice major U.S. shipping lines were asked to assemble thousands of containers. They called on Genstar, a GE Capital subsidiary and the world's largest marine container leasing company. We responded quickly with an extraordinary 15,000 forty ft. containers.

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u can increase current income by investing in high-ld securities that will soon be redeemed. It won't really ke you any richer but it could make you feel richer.

Short-term trategy

Y BEN WEBERMAN

n Weberman is a columnist FORBES magazine.

W PEOPLE have been hit harder by e decline in interest rates than retir- s who must live off fixed-income vestments. Money market funds at were paying 6.5% a year ago are w paying only 3.8%. The decline in yields has been equally dramatic.

What to do? Here's a suggestion for ese investors—those who have at ast $500,000 in assets with little or desire to leave money to children grandchildren.

Take a portion of your savings—I'd commend no more than 25%—and vest in securities that have high- terest coupons and thus the poten- al for early redemption. Since such onds probably sell at a premium to ce value in this market, you face a ss of the premium when the bonds e called. But in the meantime you ould enjoy higher income.

Using up principal is anathema to ost investors, so this strategy isn't r everyone. But it's a way of getting hrough this particular period until nterest rates creep up again, as they nvariably will in three to four years.

A variety of taxable and tax-free nvestments are appropriate to this trategy. These include tax-free unit nvestment trusts that have a large proportion of high coupon bonds in their portfolios, mortgage pools containing mortgages that are being rapidly repaid and high coupon tax-free bonds, which trade at a high premium price because they don't become callable for three or four years or longer.

Lauren Eastwood, bond analyst at Gabriele, Hueglin & Cashman, a division of Tucker Anthony Inc., affiliated with John Hancock Mutual Life, recommends a 7.5% Ginnie Mae pool, yielding 7.89% today based on the market cost of 98¼ over the estimated average life of 8.4 years. If interest rates fall even further, mortgage prepayments would speed up, bringing the investor faster return of principal.

Prerefunded, high-coupon munis are also candidates for our strategy. These are bonds that aren't yet callable but have been collateralized by U.S. Treasury issues that will be used on the first call date to redeem the outstanding high-interest debt. Take the 7.2% Henry County, Va. Public Service Authority, water and sewer revenue bonds that come due under original terms in 2019.

Using proceeds of a more recent issue, the bonds are now collateralized by Treasurys that will be used to pay off the debt in 2000 at 101. Rated AAA by Moody's and Standard & Poor's on the basis of the collateral, and trading at 111¼, the issue yields 5.65% to call in eight years. You're getting a coupon that's higher than the yield to call, which is in effect a return of principal to you during the period.

The same theory applies to the tax-free 10% San Diego, Calif. industrial revenue bonds issued for San Diego Gas & Electric Co. They have an original maturity of 2018 but are likely to be paid off at 102 on June 1, 1993. They're currently selling at 108⅝. For more than a year, you get the 10% coupon. The yield to call is only 4.5%, but that tax-free rate is still a good return, considering that commercial bank savings CDs due in one year are now paying a fully taxable 4% or less, depending on your geographic location.

This investment pattern can be applied to tax-free unit investment trusts, too. While they carry high loads or commissions that can run to 5% on purchases of outstanding units in the secondary market, the load would be less burdensome for someone holding for longer periods, say five years or more. The target in this case would be a pool set up in the mid-1980s with a large proportion of high coupon issues. The bonds are being redeemed rapidly now, and interest payments to investors regularly are accompanied by return of principal.

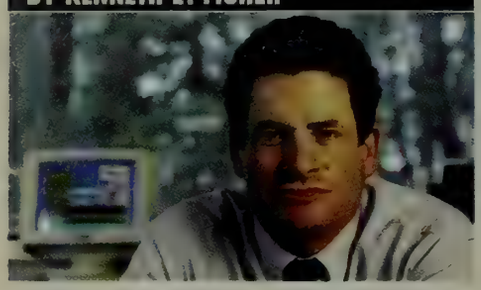
An example is Van Kampen Merritt's IMIT Series 71, with average life of 1.23 years. The original par value of $887.34 per unit has been halved, to $409.68, by repayment of principal. After sales charge, a new buyer would pay $457.90. With many high-coupon, premium-priced bonds in the portfolio, current yield is 11.58%, though long-term return is just 4.8%.

A purist would argue that you only fool yourself if you try to stretch your income by buying soon-to-be-called high-yield bonds. But if the idea of digging directly into principal horrifies you, this is a relatively painless way to do it. Besides, who knows? Maybe interest rates will spike up before the first call date and the bonds won't be called after all. ■

Do you feel a little dizzy watching the Dow industrials climb toward 3300 while the economy is still weak? Here's why the market isn't as expensive as it seems.

Fear of falling

BY KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books: *The Wall Street Waltz* and *Super Stocks*.

INSTEAD of feeling euphoric about the bull market, many people are simply scared. How can stocks be so strong when the economy seems so soft?

The Dow Jones industrials is at 30 times trailing earnings, and other indexes have similarly high P/Es. The market looks historically high by many other value measures too: price-to-book ratios, for example.

Then there is the worry that when recovery does come it will shove up interest rates and this will pull money out of stocks.

But don't let these kinds of fears drive you out of a market that still has a long way to go. First, P/Es aren't as out of line as they seem, because they are .based on recession-depressed earnings. Over the long run corporate profit margins tend to average about 6%. They bounce around, but overall they always end up right back at those levels within a couple of years. Based on normalized earnings, the market has a P/E of about 13. If you wait for the earnings to be realized, it's always far too late. The market is a discounter and moves far ahead of earnings—always has.

A P/E of 13 is an earnings yield of about 7.7% (1 divided by 13 = 7.7%), which is just fine compared with yields on government bills and bonds, which run from just below 4% for short-term paper to 8% for risking 30 years (with a median yield of 6%).

The earnings yield on stocks doesn't have to be quite as high as bond yields for stocks to rise. Remember, in the long term businesses in aggregate will grow in sales, continuing to average those 6% profit margins. En route, the earnings yield from owning stocks will rise, but the interest yield from bonds bought today is stagnant forever.

What about other signs of high valuations, like that historically high price-to-book ratio? Disregard them. Price-to-book is no longer useful in measuring the market's value relative to its past because of too much inflation distortion in recent decades. It is biased by inflation to the high side. Most other measures that now signal prices are too high also have their own quirks, which cause them to mislead investors to the painfully wrong conclusion that this market is too rich.

As for the threat of higher interest rates, a rising economy doesn't necessarily force rates up and usually hasn't done so early in a recovery. There is usually a time lag. In fact, often interest continues to fall well into recovery. Demand for short-term money often falls with less need to finance inventory and receivables—and demand for long-term money can fall because of the capital expenditure cycle, which always lags the economy on both sides of the business cycle.

You can always find things wrong with the world. There is never a shortage of problems. Never has been. Nor a shortage of people who love to fixate on them. The only thing that really counts is: Will the problems hurt stock prices now? Weak foreign economies? Deficits? Tax cuts? Hikes? Congressional stupidity? Pat Buchanan? IPO mania? Good grief!

While these are all real problems, they are amply discounted in stock prices. Too many people are too pes mistic. I find myself almost shunn as a moral outcast for expressing t view, which I believe firmly, that t later 1990s will be better than avera for the American economy. But ev if they aren't—if they are a bit wor than average—the bull market w prevail. The market has dealt so ma times before with vastly worse pro lems than those we face now. Cou on it to do so now.

Buy cheap stocks of good firm from which investors don't expe much, and then be patient. Ones lik these: *Interface* (12, o-t-c) is clear the dominant vendor of carpet til for large businesses. It has a ve efficient product because it can repa worn carpet sections where traffic i heavy without the cost of replacin the whole floor. Here, too, 19 time earnings doesn't sound cheap. Bu the recession hurt business. Produc demand will pick up with the econo my. So will the stock—to maybe $20 Here, at book value, this $600 millio (sales) firm sells for $200 million— which is about six times what its earn ings will be when profit margins again return to normal.

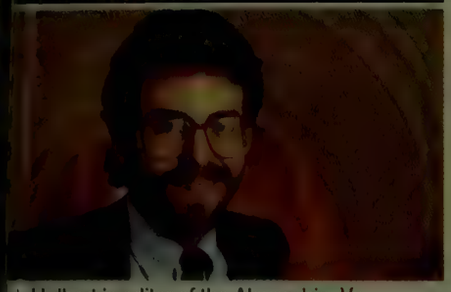
JWP (19) could easily be $40 by 1994. It's a bit of a conglomerate, bu each main area should grow nicely— which is nifty since it is selling a below-average valuations of 23% o revenue, 12 times earnings that aren't terribly recession sensitive, and at 1.7 is at about two-thirds of the market's price-to-book ratio.

The image of *M/A Com* (7), a leader in microwave electronics technology for both defense and commercial markets, is hurt by its defense exposure. But the stock is too cheap— with a cash flow yield of 30%—hard to beat. At 40% of revenue, nine times earnings and 1.4 times book value, this $170 million market-cap stock should double before 1995. ■

ok for the relative strength in small-cap cks to continue. Here are some good sources investment ideas in the group.

The least shall be first

MARK HULBERT



rk Hulbert is editor of the Alexandria, Va.-sed *Hulbert Financial Digest.* His newest ok is *The Hulbert Guide to Financial wsletters* (New York Institute of Finance).

EAR AFTER YEAR over the last decade, vestors were told that secondary ocks were the place to be. Yet year fter year the secondaries underperformed the blue chips. But in 1991 he secondaries finally had their day in he sun: The U.S. stocks with the mallest market capitalizations gained 4% last year, handily beating the 30% otal return of the S&P 500.

What now? As I pointed out the last ime I wrote about small-cap stocks *(see my Aug. 19, 1991 column)*, their elative strength tends to come in treaks. That is, whenever they outperform larger-cap stocks for more han just a few months, they often ontinue to do so for a number of ears. So, if history repeats, the small aps' relative strength will continue. (By small caps, I mean the 20% of the U.S. stock universe with the lowest market capitalization—which currently means those with a market value of less than $100 million.)

The 1991 performance of investment letters reflects the fact that they have a heavier focus on small-cap stocks than other players in the advisory industry. According to the *Hulbert Financial Digest* rating service, the average equity portfolio among the 123 letters monitored beat the S&P 500's total return last year, 38% to 30%. This is the first time in years the average letter beat this widely watched performance benchmark.

Of course, these letters' improved relative performance is traceable to the simple fact that secondary stocks—their special province—have started to shine. They have not just suddenly become smarter. Nevertheless, because smaller-cap stocks' relative strength is likely to continue, there is now additional reason to pay attention to the investment letters. The smallest-cap part of the market is pretty obscure, and these letters can play a useful role in digging through the little-known names and bringing them to your attention.

Which letters are the best bet to play the expected strength in secondary stocks? Those with the best record over the last several years are *BI Research* (edited by Tom Bishop), *MPT Review* (Louis Navellier), *OTC Insight* (James Collins), *Medical Technology Stock Letter* (James McCamant), the *Oberweis Report* (James Oberweis) and the *Value Line OTC Special Situations Service* (Peter Shraga). On average over the last three years, these letters' model portfolios have gained 241%, in contrast to just 25% for Dimension Fund Advisors' 9-10 Small Company Fund, an index fund constructed to match the 20% of stocks with the lowest market caps.

Which stocks do these letters currently like? Not surprisingly, given how obscure many of these small companies are, these letters are recommending a bewildering variety of stocks. There is not even one company under $100 million in market capitalization that currently is being recommended by more than one of these services. But there is one industry grouping that gets special attention: medical and biotechnology.

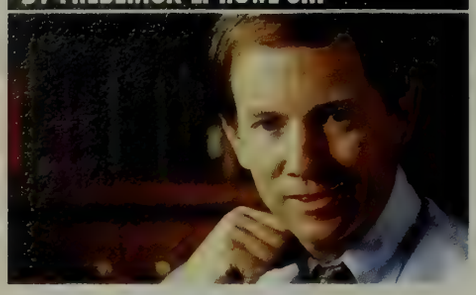
Here are the small-cap companies in the medical and biotechnology arenas that these investment letters count among their current favorites:

Merit Medical (recommended by *MPT Review,* recent price: 15), which manufactures disposable medical products; Century Medicorp (a buy candidate from *OTC Insight,* recent price: 20), which operates an acute-care hospital and an HMO; Henley International (17, recently added to *Oberweis Report*'s model portfolio), which provides a number of physical therapy and home pain management services; Phycor (17, another addition to *Oberweis Report*'s model), which operates a number of multispecialty medical clinics; Imre (4, recommended by *Medical Technology Stock Letter* for purchase under $2), which treats various cancers and autoimmune diseases; Biotechnology Development (4, rated buy by *Medical Technology Stock Letter* under $2), which is involved in the commercialization of new technologies in the biotech field; Procyte (10, yet another low cap in *Medical Technology Stock Letter*'s model portfolio), which focuses on a variety of medical fields, such as wound healing and hair growth; American Biodyne (16, recommended by the *Value Line OTC Special Situations Service*), which provides mental health care and substance abuse treatment services; and TriCare (14, another buy candidate from *Value Line*), which provides a broad line of occupational health services. ■

Even the optimists have about given up on natural gas. When that happens, it is often a good time to buy an industry.

"Not in my lifetime"

BY FREDERICK E. ROWE JR.



Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

WHENEVER natural gas producers meet, the following joke is almost invariably told. The president of the Independent Producers Association of America asks God two questions: "Will the natural gas surplus ever dissipate and, if so, when?" God replies: "The answer to your first question is probably; and the answer to your second question is not in my lifetime."

It's a good story but, happily, an exaggeration. In my opinion, the free-fall in the price of natural gas is about to end. During the last decade, the spot (market) price of natural gas has fallen from more than $4 per thousand cubic feet to less than $1. I am bullish on the price of natural gas and on the natural gas producing companies that survive the industry's current depression. Natural gas is now a deregulated commodity. The current downtrend in supply (capacity) and the uptrend in demand (consumption) will produce a predictable result—a dramatic rise in natural gas prices that should occur next winter.

By nature, natural gas producers were an optimistic lot. For most, that optimism has been replaced with an attitude of resigned depression, which the foregoing joke reflects. In the early 1980s, remember, the rallying cry for natural gas producers when they first started seeing their production curtailed was, "Stay alive till '85." Since then, of course, a grim situation has only gotten worse.

Natural gas used to be a highly regulated, contracted natural resource. Now 80% of the gas that is produced trades on the spot market and is subject to wild price fluctuations like any other basic commodity. There is no OPEC to moderate supply/demand imbalances. If there is excess supply anywhere, any of thousands of gas marketing organizations will find a market; and if the producer needs cash, he or she will sell, regardless of how depressed that price is.

Thus deregulation and other factors, like recession and an unprecedented series of warm winters, have combined to drive the price of natural gas to levels that formerly would have seemed unimaginable. In theory, an mcf (1,000 cubic feet) of natural gas should sell for one-sixth the price of a barrel of oil. That is its heating equivalent. Oil at $18 a barrel should translate to $3 per mcf natural gas. That is how natural gas is priced throughout most of the world.

In spite of recession and warm weather, the consumption of natural gas has continued to rise modestly. In 1991, for example, the consumption of natural gas in the U.S. was up about 4% over 1990, to something less than 20 trillion cubic feet. In fact, consumption has risen modestly for most of the last decade. About 10% of the gas we consume comes from Canada. That number will rise modestly. We are net exporters of gas to Mexico. We get 82% of our gas from Texas, New Mexico, Oklahoma, Louisiana and the Gulf of Mexico. The average life of a gas well is about seven years.

Since the finding cost of natural gas is higher than its market price, drilling for gas has come to a virtual standstill. The number of domestic rigs operating is at a 50-year low. Consider th the domestic rig count is now abo 650. In the early 1980s it was 4,500 an 86% decline.

Is the fact that we have had unus ally warm winters for nine of the la ten years an aberration or a permane state of affairs? I vote for the forme And, in fact, conventional wisdo among climatologists is that becau of recent volcanic eruptions in th Philippines and the resultant volcan ash floating around the world, 1992 93 will be a cold winter throughou the world. (The volcanic ash block the warming rays of the sun.)

Since domestic natural gas is a pur commodity, for a moment assume th following: an economic recovery normal winter weather in 1992-9 and supply that falls short of deman (not unprecedented). What coul happen? The price of natural ga could quickly rise to its heating oi equivalent price, about $3 per mcf.

How should an investor play th potential rise? *Unocal* (21) look promising. Other companies tha look interesting are *Cabot Oil & Ga* (10), *Mitchell Energy & Developmen* (15), *Noble Affiliates* (12), *Anadarko* (19) and *Arkla Exploration* (10). All of these companies trade at three to five times current cash flow. A meaningful rise in the price of natural gas would increase the cash flows of the companies dramatically. Institutions are "underweighted" in this group, and a change in perception could produce exciting upside stock market performance.

Finally, gutsy speculators might even consider *Mesa Inc.* (3), whose chief executive, Boone Pickens, has been the world's most vocal proponent of natural gas over the last 15 years, much to the impoverishment of his shareholders. If the company survives and if gas prices rise appreciably, Mesa would be a big winner. ■

s far as they've fallen already, commercial real estate lues must fall much further to clear the market.

Bottom, bottom, where's the bottom?

BY STEPHEN E. ROULAC

tephen E. Roulac leads a real estate nd economic consulting firm based in an Francisco. His forthcoming book, *Reeling Realty*, chronicles the 1980s real estate debacle.

SOME SAVVY real estate investors have been asserting that the market is poised for a robust rebound, something akin to the recovery in the late 1970s when fortunes were made from buying up office buildings and other distressed commercial properties. Certainly today's depressed conditions favor the buy side of the real estate transaction. But hold on to your wallet. To commit capital to real estate deals in anticipation of a strong near-term recovery in the overall property market would be premature. Values still have quite a way to fall.

The problem is simple. The market isn't clearing. Sellers continue to demand prices rooted in the go-go 1980s. But real estate investors' psychology has changed. Potential buyers no longer believe that real estate values will rise even as much as inflation, which isn't the threat it used to be. Because it is next to impossible to raise rents in most projects, the demand for higher yields can be met only if sellers cut their asking prices.

Real estate deals are priced on the basis of capitalization rates. The inverse of a price/earnings multiple, the cap rate is similar to the yield on a bond. Cap rates and property values are inversely related: If cap rates are, say, 10%, then a building throwing off a cash return of $1 million would be worth $10 million. Similarly, a 5% cap rate supports a $20 million value. If the cap rate is 20%, the building would be worth $5 million. Rising cap rates are bad news for property values.

During much of the 1980s, investors were willing to accept relatively nominal, or even negative, current cash returns because they believed that rents and property values would continue to rise and produce attractive total aftertax returns—cash returns, tax savings and capital gains. But the 1986 tax act wiped out most of the tax advantages, and growing supply surpluses destroyed appreciation prospects—yet banks aggressively expanded, financing new projects. Moreover, inflation has almost withered away, and in today's market few investors perceive future appreciation as highly probable.

As a result, investors are placing more emphasis on current cash-on-cash yield than on total return. In other words, cap rates now reflect almost entirely a project's cash yield, whereas before they represented partly cash and largely projected appreciation in the property's value. With concerns about the economy and diminished appreciation prospects, investors are typically demanding 10% cash returns to justify tying their money up in illiquid real estate.

For people who own property and for bankers whose loans are collateralized by property, these new investor demands are scary. They mean that if a piece of property is to be sold, the seller must cut his price by even more than he already has cut it.

How far must prices fall? One indication is the Russell-NCREIF index, which for real estate is the closest approximation of the Dow Jones industrial index. Since 1987, income from properties—essentially the current cash return—has represented about a 7% return on the index's portfolio values. But if the Russell-NCREIF index's portfolio were revalued to reflect the 10% return that investors are now requiring, the index's current values would be adjusted downwards by perhaps 30%.

Yes, I am aware of President Bush's and Congress' promises to restore some of real estate's tax breaks. But the only real solution to the real estate debacle turns on righting the balance between supply of and demand for space. Anything that stimulates economic expansion is good for real estate. But what we don't need are tax incentives to create more buildings.

The sooner property prices fall to levels at which investors will commit capital to them, the sooner lenders will again have confidence in property as collateral. But owners of real estate assets (and some bankers) still perceive the values of those assets in terms of valuation relationships that are unlikely to apply in the 1990s. Sellers think their properties are still worth values based on 7% current returns, whereas potential buyers are demanding 10% current returns. A huge bid-ask spread has developed. It's as if the stock market says your IBM stock is worth 100 but you, convinced it's worth 150, won't take a penny less.

As in stocks, so in real estate: The market won't clear unless and until buyers and sellers come together on a price. Right now the buyers have the capital and the upper hand, and they're sticking to their demands of 10% current returns. Unless you think inflation and the economy will soon take off again, then sooner or later the sellers will have to budge to accommodate the buyers. When they do, we'll begin to find out where the property market bottom really is. ■

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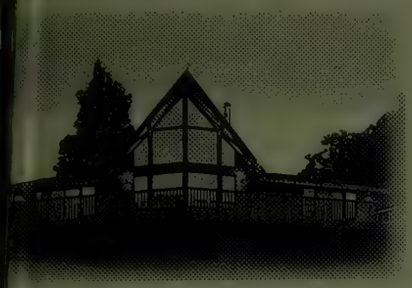

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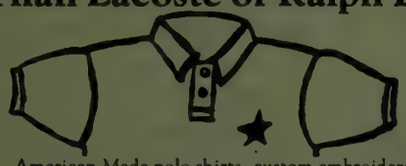

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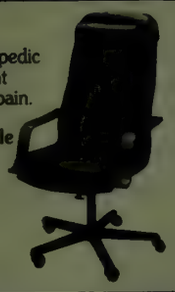

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Another shoe to drop?

IN LATE JANUARY Household International, Inc., the $30 billion (assets) consumer and commercial loan company, announced its withdrawal from the "higher risk" portions of its commercial finance business—commercial real estate, highly leveraged transactions and certain equipment financing operations. Prospect Heights, Ill.-based Household set up a $93 million reserve for anticipated losses, and plans to liquidate $1.8 billion of receivables over the next few years.

Household stock (recent NYSE price of 53) has held up well since this shoe dropped—too well, thinks analyst Sy Jacobs of New York's Mabon Securities. Says he: "Household's current 33% reserve coverage on nonperforming assets seems low even compared to most money center banks."

Nor is Jacobs satisfied by the level of reserves Household takes to protect against delinquencies in its core consumer finance business. In 1991 that delinquency rate was a worse-than-expected 5.5%, up from 4.9% in 1990. Yet reserves set aside for this were just 1.9%. Compare that with Beneficial Corp., which had a lower 3.35% delinquency rate, but reserved nearly 3% to cover possible losses.

Both Household and Beneficial (the latter's recent NYSE price, 65⅛) trade at nearly ten times what Jacobs estimates they will earn in 1992. The difference, says he, is that in Household's case there's the risk that another shoe might drop. Jacobs' advice: Trade out of Household and into Beneficial. —HOWARD RUDNITSKY

Rebound all over again?

IS IT TIME for Great Atlantic & Pacific Tea Co., Inc. to resurrect itself again? After stumbling in the 1970s, A&P rebounded in the 1980s with better merchandising and financial controls and a successful acquisition program. Between 1983 and 1989 the Montvale, N.J.-based company spent $572 million to buy such regional supermarket chains as Kohl's, Dominion, Shopwell, Borman's and Waldbaum's. Between fiscal 1983 (ended Feb. 28) and fiscal 1990, earnings rose from 57 cents a share to $3.84; the stock rose from 4 to 65 or so.

Nothing goes up forever. In October 1990 A&P overpaid for Ontario-based Miracle Food Mart. Cost: $227 million. Fiscal 1991 earnings rose slightly to $3.95 a share. Soon, momentum vanished. Some 60% of A&P's sales are from Michigan, Ontario and greater New York, all hard hit by the recession. By last December, the stock had fallen to 25½. Analysts Allan Roness and Brian Maimone of

Deli counter at an A&P store
All the fixings for a hero of a stock.

New York's Fahnestock & Co. estimate that in the fiscal year just ended A&P earned just $69 million, $1.80 per share, on sales of $11.7 billion.

Recently, however, the stock rallied to 31¾, on expectations that A&P will enjoy terrific operating leverage in a recovery. And its ratio of long-term debt to total capital (at 32%) is well below the grocery retailer average. The company can easily expand without damaging the balance sheet.

Roness and Maimone estimate A&P will earn $2.50 a share in the current fiscal year; they warn the stock may backtrack a few points but will hit 40 over the next 12 months. German retailer Tengelmann Group owns 52% of A&P's 38.2 million shares.

Globe warming

IN 1989 Boston-based Affiliated Publications, Inc. spun off to stockholders its shares in McCaw Cellular Communications. Last December it sold BPI Communications, which publishes *Billboard, Hollywood Reporter* and *Adweek,* to a partnership, of which Affiliated owns 33%. Affiliated got $100 million in cash and $50 million in tax benefits, roughly offsetting its long-term debt. That leaves it with just the $393 million (1991 revenues) Globe Newspaper Co., which runs the *Boston Globe.*

The *Globe* has suffered badly along with New England. But analyst Sa tore Muoio of Gabelli & Co. thi that, after a four-year decline, it begun to turn. (Mario Gabelli's fu own 15% of Affiliated's Class A sto much of it bought at average pri close to the current market.) Straw the wind: December 1991 linage the *Globe* was up 6.4% versus 19 December ad revenues, meanwh increased 4.2% year over year. Cla fied linage has also risen lately. Fina circulation is up despite higher ne stand prices and home delivery rat

Muoio estimates Affiliated will ea 35 cents a share in 1992, more th triple 1991's depressed results, a that earnings will rise to 50 cents 1993. The NYSE-listed stock—recen ly at 10¼—is up 20% since the begi ning of the year. But Muoio thinks t company will be worth $19 to $24 share by January 1996, when the Jo dan and Taylor family trusts, whi control the company, expire.

The trusts own 81% of Affiliated 21.1 million Class B supervotin shares. This stock is convertibl share-for-share, into Class A stock, which there are 49.1 million share (The A stock trades; the B doesn't Muoio says Affiliated's strong balanc sheet, the *Globe* franchise's value, th potential for a recovery in New En gland as well as in general ad spend ing—plus the possibility of the com pany's sale by the mid-1990s—mak the stock a good long-term play.

Powering through a recession

TEMPORARY HELP is among the firs businesses hurt by a recession; it's also among the first to reflect a recovery This hasn't been lost on investors Consider how they've bid up shares o $843 million (sales) Olsten Corp., one of the field's leaders. Over the past year or so the Amex-listed stock has nearly doubled, to a recent 27½.

Olsten's management didn't sit out the recession. In December 1990 the Westbury, N.Y.-based company acquired Upjohn Health Care Services for $58 million. Higher-margin health care services now account for around 35% of Olsten's revenues. According to Judith Scott of Milwaukee's Robert W. Baird & Co., the Upjohn operation added about 15

s a share to 1991 results (93 cents are, up from 80 cents in 1990). cott estimates Olsten will earn 0 a share this year, and as much as 0 in 1993. Although the stock for a rich 21 times anticipated 2 earnings—and 16 times Scott's 3 estimate—she notes that Olsten cally trades at a substantial premi- to the market. Scott expects the k to hit 34 or 35, roughly a 25% n, over the next 12 months. There 9.4 million common shares out- nding, plus 6.2 million shares of ss B supervoting stock owned al- st entirely by the Olsten family.

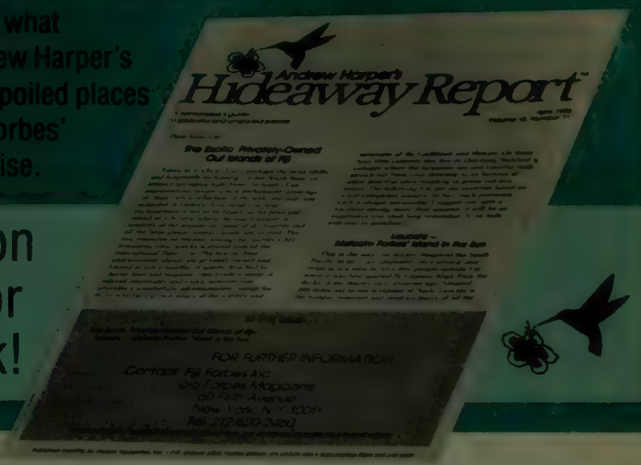
e lid's off Lydall

OW HIGH is up? That's a question lyst John Walthausen of Albany's King & Associates is being asked se days about little (sales, $135 lion) Lydall, Inc. The Manchester, nn.-based company produces so- isticated fiber-based materials used electrical insulation, gasketing and er products. Lydall's Big Board ck, which split 2-for-1 in Septem- r, has more than doubled since d-1991, to a recent 31¾.

A big reason for the runup, says althausen, is that Lydall has a slew promising new products. For ex- nple, it makes a material that is itical in the filtering of a patient's n blood for transfusion during sur- ry. It is supplying leading pencil- aker Faber-Castell with a composite recycled cardboard and newspaper er that will replace wood as the ain raw material for a new pencil. In e automotive market, Lydall has veloped material for insulated bat- ry cases. And its filtration media romote cleaner air everywhere from ospital operating rooms to semicon- uctor production facilities.

Last year Lydall earned $1.41 a hare, flat with 1990. But that was ommendable, says Walthausen, giv- n the economy. This year he looks or $1.65 and expects the company to arn $2 a share in 1993. With Lydall rading at 16 times next year's esti- nated earnings, Walthausen admits e'd rather buy the stock on weak- ess. Trouble is, Lydall's prospects ook so strong the stock may not get uch weaker. There are nearly 5.6 million shares. Insiders own 25%. ■

"This is the way you always imagined the South Pacific to be" Read what Andrew Harper's exclusive guide to unspoiled places says about Malcolm Forbes' exotic Fiji Island paradise.



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"Taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of 'bula' are a reflection of the welcome and care extended to visitors.

"This is the way you always imagined the South Pacific to be – an unspoiled, once-upon-a-time tropical isle seen by very few people outside Fiji since it was first spotted by Captain Bligh from the decks of the *Bounty* two centuries ago. Situated 200 miles out to sea northeast of Nadi, Laucala is the lushest, remotest and most exclusive of all the destinations in this corner of the world. The island is ringed by impressive coral reefs, shell-strewn beaches and a beautifully manicured coconut plantation whose terrain rises upward to a mountainous interior rife with giant ferns, mango trees and wild birds. . . .

"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don't expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

Meals are a delight here, beginning with breakfast prepared by a cook and housekeeper in the privacy of your own bungalow at any hour you wish. Dinner and lively conversation are enjoyed at the atmospheric Plantation House . . .

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"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special – particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

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more things change . . ."

years ago in FORBES

M THE ISSUE OF MARCH 18, 1922)

e **British government** has an-
nced its acknowledgment of the
pendence of Egypt and the ter-
tion of its protectorate over the
. The sovereignty of the Sultan
be restored."

lliam Rockefeller, brother of
D., is to spend a quarter-of-a-
on dollars in erecting a magnifi-
tomb for himself, the newspapers
ounce. This is sad. Few men of his
th and opportunities have more
pletely failed to build for them-
s a worthy place in the hearts of
r fellow men. The only 'magnifi-
' monument William Rockefeller
leave will be this palatial
b."

years ago

OM THE ISSUE OF MARCH 15, 1932)

**w 1932 pneumatic-tired
dd-Michelin railcar.**

or the past two weeks patrons of
0 southern and western stores of
oolworth's chain have been crowd-
g in to see what the new 20-cent
ice limit means to them. If they
ow their approval by buying, the
w lines will be sold in the remaining
805 U.S. stores. . . . Woolworth's
lieves that, because of low com-
odity prices, it can offer unusual
rgains if it raises the limit, and can
eatly increase its sales with little
crease in overhead."

Germany continues to prepare for
er great national election, and the
rst balloting for the presidency is
heduled for March 13. Adolf Hitler
by far the strongest candidate op-
osing the present president,
lindenburg."

50 years ago

(FROM THE ISSUE OF MARCH 15, 1942)

"Vestless suits, which save the customer $5 and the country wool, are now on sale. All new clothes are short on zippers, buckles, other metal doodads. Buttons, for the most part, are made of wood, bone, spun glass."

"The ban on production of radios, refrigerators and washers, effective late in April, has sent consumers on another buying spree. At the same time, it has sent dealers who handle only household items in search of other lines to sell."

**Wooden tires?
They were tried out in World War II.**

25 years ago

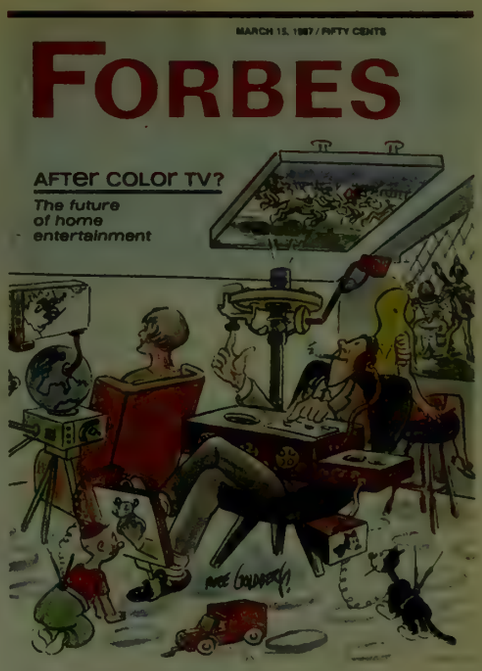
(FROM THE ISSUE OF MARCH 15, 1967)

"We should protect what Justice Brandeis called the 'right most valued by civilized men'—the right to privacy. We should outlaw all wiretapping, public and private, wherever and whenever it occurs, except when the security of this nation itself is at stake—and only then with the strictest government safeguards."

–PRESIDENT LYNDON JOHNSON

"More than 75% of those using computers today rent them directly from the manufacturers. Only 16.2% own the equipment themselves, while a mere 6.2% operate it under leaseback arrangements with 'a third party.' "

"In the dear dead days of radio, a great wit, the late Fred Allen, referred to that medium as 'furniture that talks.' Today, thanks to electronics, furniture not only talks, it records, shows movies and, in the not very distant future, is going to do for the



This 1967 FORBES cover by the great Rube Goldberg was right on target about home entertainment's future.

home what it already has done for the office and factory: automate it. What all this means is simply that the color TV boom, though faltering a bit right now, is only the beginning of a tremendous future for electronics in the home."

10 years ago

(FROM THE ISSUE OF MARCH 15, 1982)

"The University of Texas is a school with ambitions to rival Harvard and the University of California as one of the premier U.S. centers of research, the hallmark of greatness among universities today. UT is doing what those other schools did in the past: using money to attract the best brains and build the best facilities. . . .

"Officially, Texas' $1.5 billion endowment places second to Harvard's $1.7 billion. But the university owns 2.1 million acres of oil lands in west Texas—ceded to the university system by the state in 1876 and 1883—[carried] on its books at a mere $10 million. The true present value of its endowment is well over $3 billion."

"You have to say this for GAF Chairman Jesse Werner: He's a survivor. For 20 years he has presided over one of the worst corporate performance records in American industry and yet, at the age of 65, he has just been given a new management contract. . . ."

How is this for meanness? John Jacob Astor, father of the present Vincent Astor, used to have a Fifth Avenue Hotel barber go to his house every day to shave him. He didn't tip the barber every day, but gave him 50 cents a week. But—and here is the rub—instead of paying the barber on the same day each week, he systematically paid the tip one day later each week. . . . In the course of six weeks he thus skinned the barber out of a week's tip! Imagine a man of Astor's wealth descending to such a contemptible dodge to save 10 cents a week!

–B.C. Forbes

A Text ...

My brethren, count it all joy when ye fall into divers temptations; Knowing this, that the trying of your faith worketh patience. But let patience have her perfect work, that ye may be perfect and entire, wanting nothing.
–James 1:2-4

Sent in by Mrs. Gaye B. Ross, Plano, Tex. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Doing business without advertising is like winking at a girl in the dark. You know what you are doing, but nobody else does.
–Steuart H. Britt

The future you shall know when it has come; before then, forget it.
–Aeschylus

There are only two or three human stories, and they go on repeating themselves as fiercely as if they had never happened before.
–Willa Cather

We are healthy only to the extent that our ideas are humane.
–Kurt Vonnegut Jr.

Never go to a doctor whose office plants have died.
–Erma Bombeck

Expect only 5% of an intelligence report to be accurate. The trick of a good commander is to isolate the 5%.
–Douglas MacArthur

If you wish to avoid seeing a fool you must first break your mirror.
–François Rabelais

Love is the delightful interval between meeting a beautiful girl and discovering that she looks like a haddock.
–John Barrymore

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American capitalism has been both overpraised and overindicted. It is neither the Plumed Knight nor the monstrous Robber Baron.
–Max Lerner

An idea isn't responsible for the people who believe in it.
–Don Marquis

Reactionaries must be deprived of the right to voice their opinions; only the people have that right.
–Mao Tse-tung

The trouble with the world is that the stupid are cocksure and the intelligent full of doubt.
–Bertrand Russell

Only those who decline to scramble up the career ladder are interesting as human beings. Nothing is more boring than a man with a career.
–Aleksandr Solzhenitsyn

High people, Sir, are the best: Take a hundred ladies of quality, you'll find them better wives, better mothers, more willing to sacrifice their own pleasures to their children, than a hundred other women.
–Samuel Johnson

I have bursts of being a lady, but it doesn't last long.
–Shelley Winters

The English have better sense than any other nation—and they are fools.
–Metternich

England and America are two countries separated by the same language.
–George Bernard Shaw

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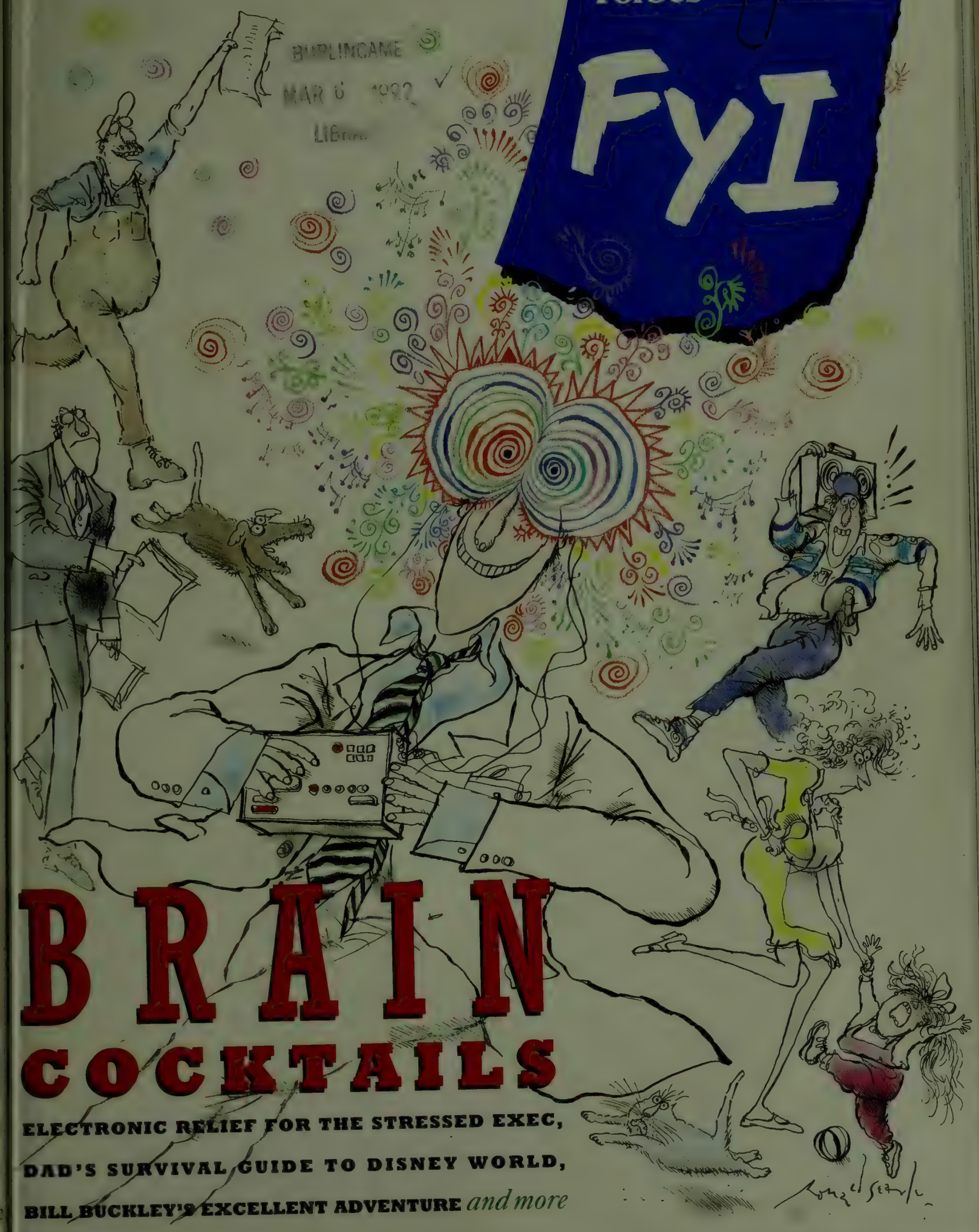

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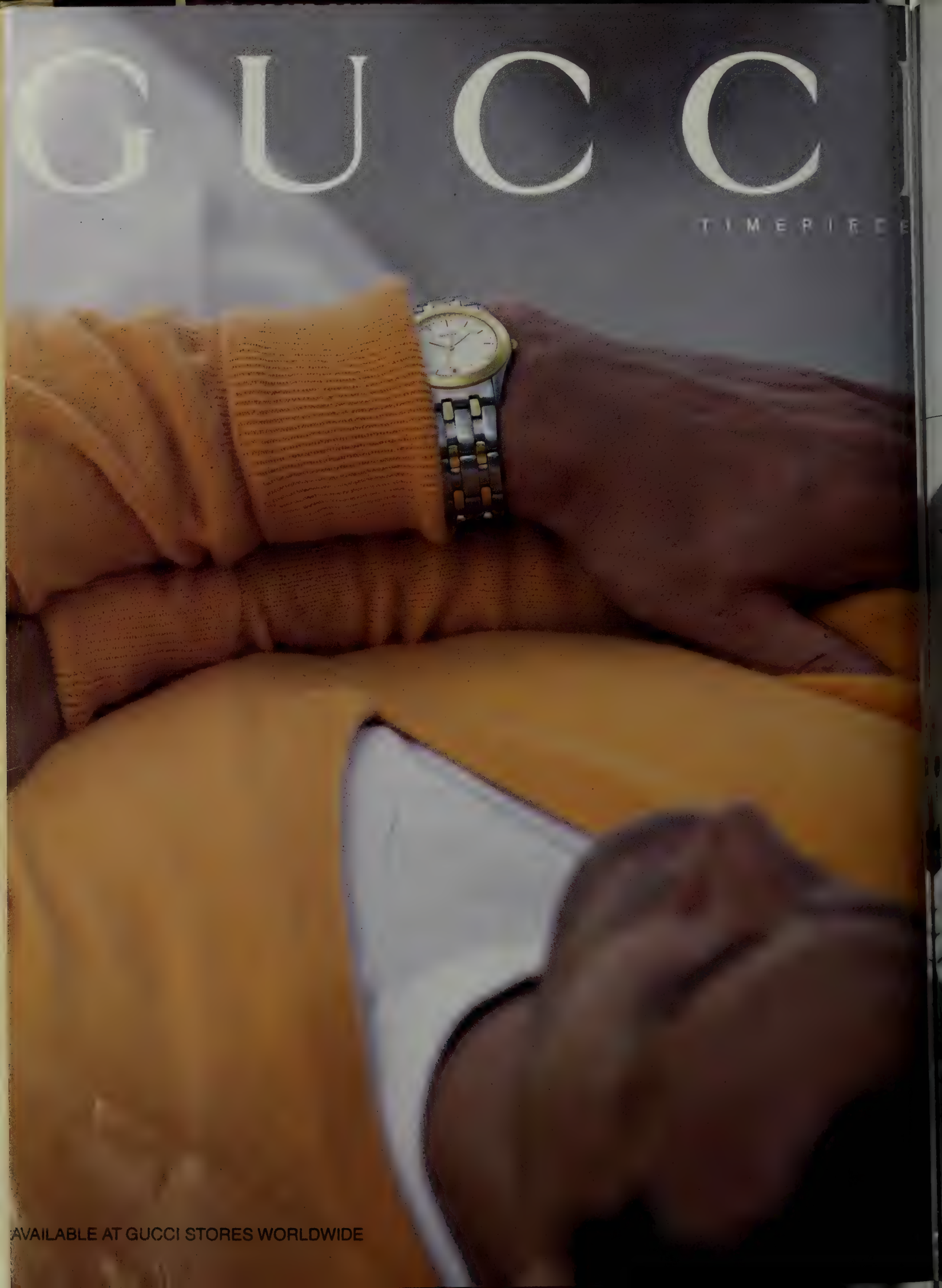
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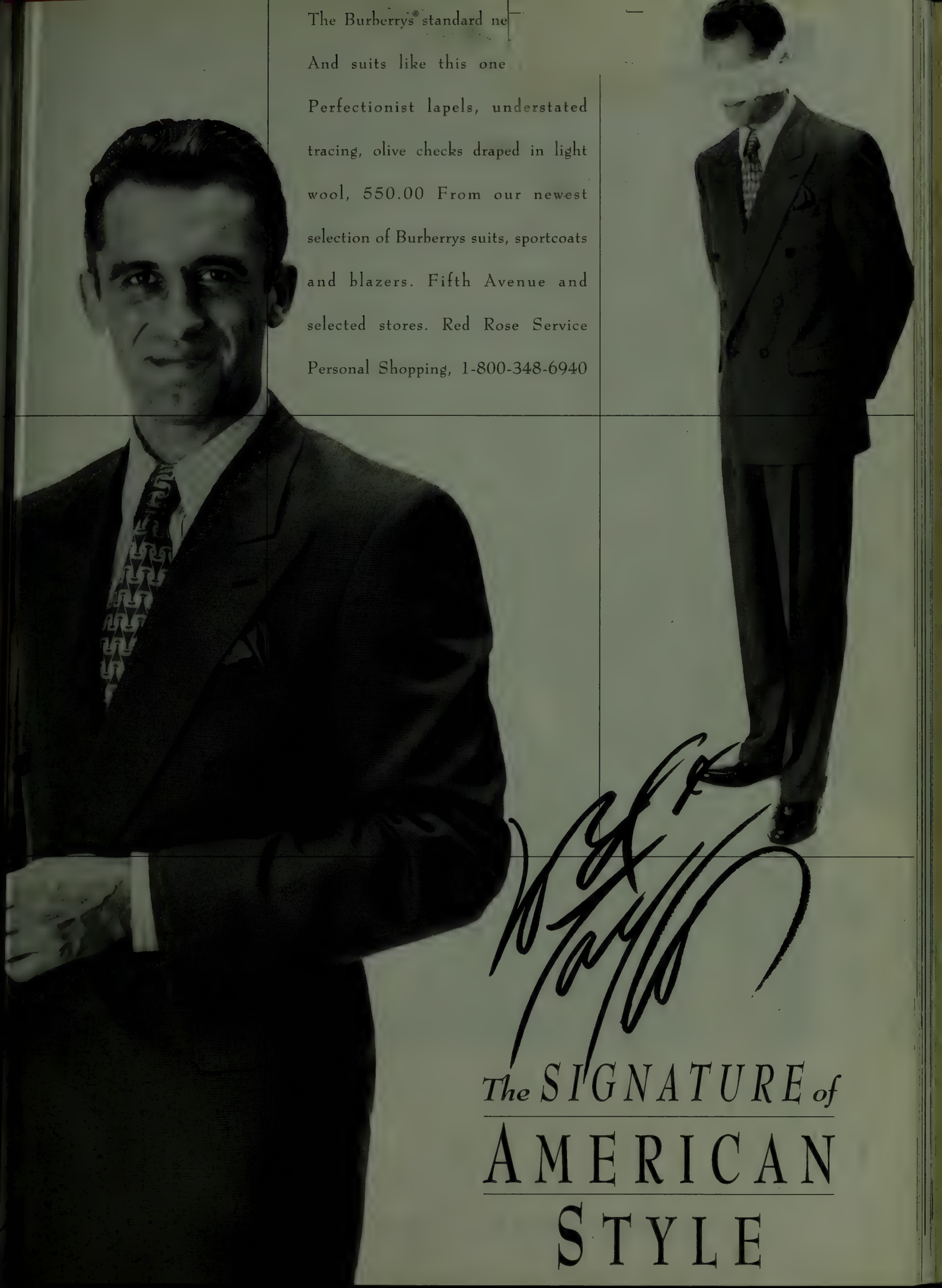
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You can't escape it. Your hour will come. Here's what you need to make it through.

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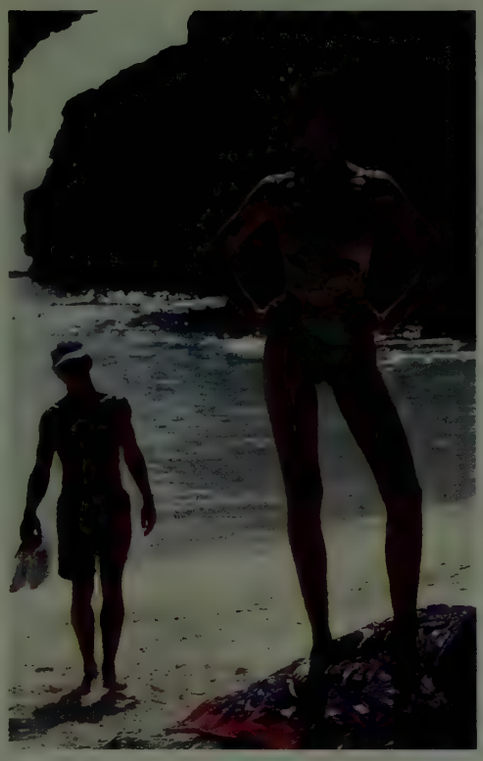

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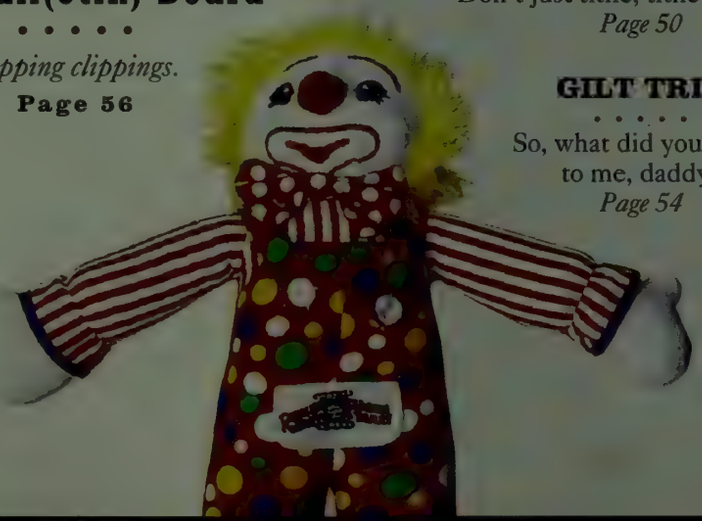

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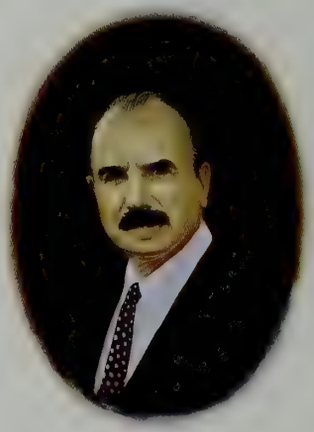
For the prudent man who leads an interesting life

Security

BY G. GORDON LIDDY



Say, Wasn't That Your Car? America's Successful Auto Industry

Forget the Japanese. Call off Iacocca, Gephardt and the other protectionist hounds; there's an $8 billion American automobile industry that's invested in by nurses, insurance agents and other members of a broad cross-section of the population, and it's so efficient its workers can turn out a new vehicle in 30 seconds for dealers who can sell the same car to eight different customers in the United States and then ship it overseas. Management? Some of it is so effective it's accused by the United States government of being more organized than our government likes people to be. For Lee Iacocca, substitute Paul Castellano, onetime CEO of closely held Gambino, a family concern, who lost his position in a management shakeup that proved fatal.

Alas, Detroit can't make it in this auto industry either. In a continuation of the Motor City's humiliation, it came in eighth last year behind (are you ready?) East Orange, N.J. I am referring, of course, to the United States *stolen* automobile industry; a business that pumped out 1,635,907 units in 1990, up 4.5% over 1989.

Perhaps now readers who have *not* had one or more of the family automobiles stolen will realize why it is just a matter of time before someone will try; and perhaps they'll be interested in what they can do to lessen the vulnerability, not to mention slowing the soaring rate of increase in their insurance premiums. We shall start with the latter.

Those of you who own yachts may have noticed the similarity in your boat and automobile insurance policies. That is not an accident. At the turn of the century it was marine underwriters who created the automobile insurance contract to protect mainly against losses incurred when automobiles frightened horses. The policies offered risk protection against damage to vehicles from fire, theft and collision, and damage to the property of other individuals—the same risk protection offered the owners of ships and boats. In those days, stealing a car was as easy as stealing a horse (there were no title and vehicle theft laws, and few cars had locking doors or ignitions), and the penalty for grand or petit larceny was a lot less than it had been for horse-stealing just a few years earlier—hanging.

These days there are locking doors and ignitions; vehicle identification numbers take the place of brands and identify cars on individual title documents, and there are auto theft statutes prohibiting the interstate transportation of a stolen motor vehicle. The problem is that it remains easy to steal a car; the chances of being caught are slim, and the penalty less than that of a serial murderer willing to accept immunity from a federal special prosecutor in exchange for testimony that Ronald Reagan secretly gave Benito Mussolini the go-ahead to invade Ethiopia. With respect to your insurance premium, however, you have another problem—your neighbor.

According to Detective Frank Kollmann of the New York City Police Department's Auto Crime Division, fully 25% of the losses for auto "theft" are the result of insurance fraud by automobile owners. You pay the penalty in higher premium rates. The schemes range from what the police call "owner give-ups"—abandoning vehicles on city streets to be stripped and ruined, then reporting them as stolen, to dumping the car into a quarry or burying it, followed by a theft report, to a more sophisticated use of a middleman who is handed the vehicle, including the registration and keys, along with a disposal fee. The middleman takes the car to a "chop shop" for dismantling and subsequent sale of the parts (an automobile in parts is worth three times its value as a whole), then returns the keys and registration to the owner, who reports the car "stolen" and files a claim.

CHOOSE YOUR PEN AS CAREFULLY AS YOU CHOOSE YOUR WORDS.

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Even more sophisticated is the "surgical strip." Here an owner with some degree of mechanical ability partly disassembles his car in his own garage, carefully removing and wrapping up seats, radio, trunk lid, hood and other easily removable parts which do not render the car immobile, then drives it out under cover of night to a street location. The next day he reports it stolen, notifies his insurance company and then recovers his own car by "finding" it accidentally as he drives about in a rented or borrowed vehicle. It has, of course, been "stripped." The owner then notifies his insurance company and the police, says he wants to keep the car, accepts the check for repair of the damage, and, saying he wants to do so himself to be sure it's done right, does so back in his garage from the original parts he has so carefully preserved, and makes a quick $5,000.

An alternative method of owner fraud is automobile arson. Perhaps misled by Hollywood special effects practices which, for the sake of "production values," load stunt vehicles with enough flash powder and petrochemicals to make them go off like a torpedoed supertanker when they crash in the chase scene, owners throw a match on the front seat and run, expecting the same thing to happen. When it doesn't, they pull a Hollywood by dousing the interior with an accelerant—usually gasoline, and give the game away.

Owner fraud is so prevalent in our major cities that street punks, seeing a car at the side of the road being worked on, just assume they're witnessing fraud or theft and jump in to help themselves, it never occurring to them that a legitimate repair may be in progress.

Recently, in New York City, an owner had a flat. He was still jacking up the front wheel when he noticed that the rear of the car was starting to rise. Someone else was already starting to claim the rear wheels and tires! When the owner protested, "What a minute; this is *my* car!", the automatic assumption was fraud, and the bargaining began: "Okay, just let me have the radio."

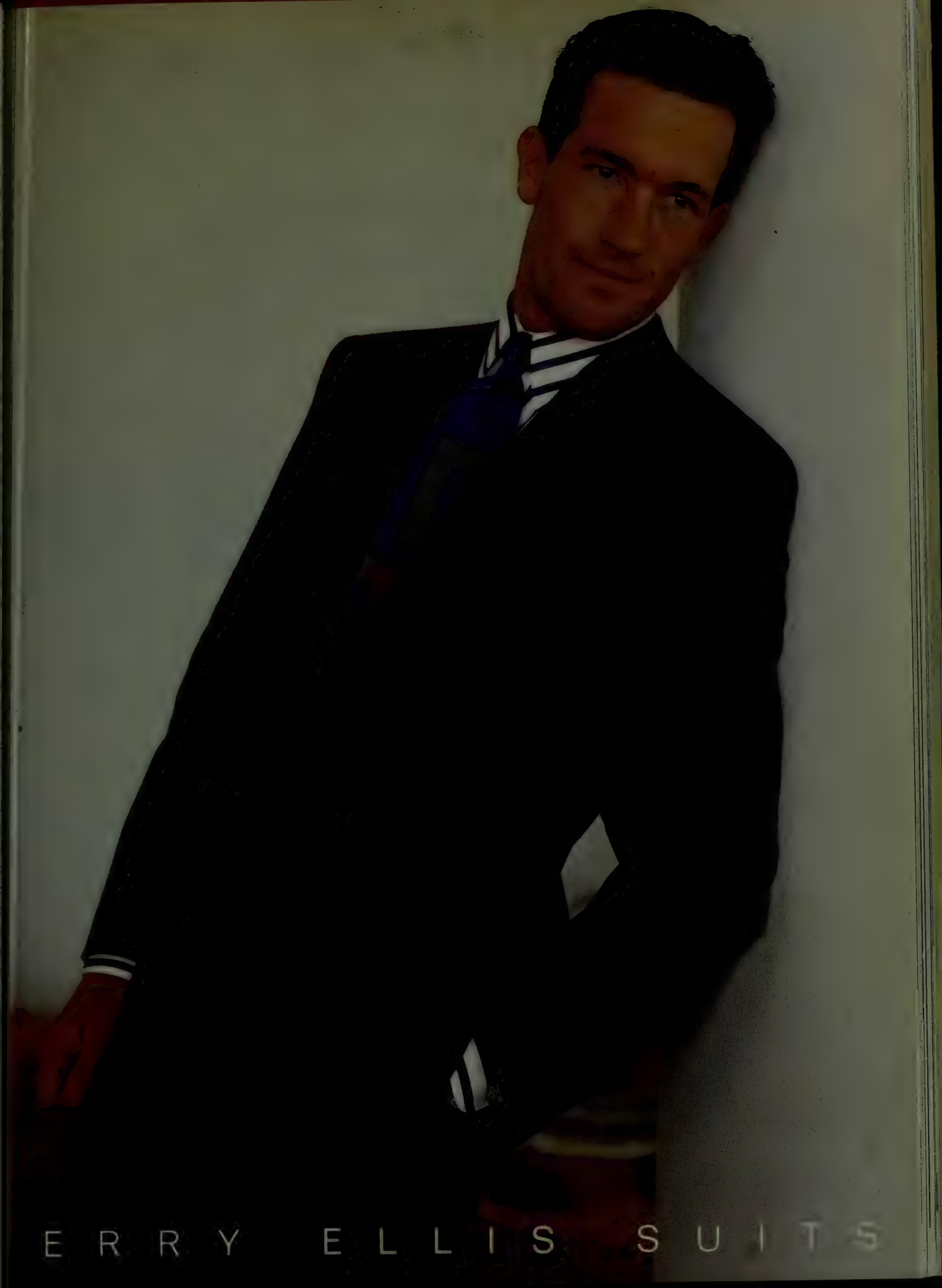
To give you some idea of the extent of owner insurance fraud, consider this: last year the National Insurance Crime Bureau (previously the National Automobile Theft Bureau—NATB), an independent agency supported by the insurance industry to assist police in prevention, investigation and prosecution of insurance crime and vehicle theft, assisted the New York City Police Department's Auto Crime Division in a 3½-month investigation of 49 abandoned vehicles. It resulted in 49 arrests for fraud. *Every one of the vehicles had been abandoned on city streets by its owner and reported stolen to collect on the insurance policy.* If you're wondering what kind of people would do such a thing, try a nurse, an insurance agent, a school principal, a computer analyst, a café owner and a financial analyst!

Recently, in New York City, an owner had a flat. He was still jacking up the front wheel when he noticed that the rear of the car was starting to rise. Someone else was already starting to claim the rear wheels and tires!

When your humble contributing editor was an eager young special agent of the FBI operating out of Gary, Ind., the steel (or *steal*—it works either way you spell it) capital of the nation, he received a letter of commendation from the late J. Edgar Hoover for the arrest and conviction of Gus Rubino and the Pronger brothers.

These worthies were running an auto-theft ring based on what is known in the trade as "the salvage racket." For a few dollars they would buy the remains of a total wreck of a late-model automobile so long as the cowl, which bore the vehicle identification number, was still intact. With the wreckage they received the title papers to the vehicle. They then stole an automobile identical in make and model, switched the vehicle identification number plate with that of the wreck, used the title papers to re-register the stolen car to themselves in another state and sold it to an unsuspecting buyer eager for a bargain.

While I got the commendation from Mr. Hoover, the truth of the matter is that the hard work of developing proof of the crime was done by a young special agent of the NATB named Hopkins. He located the secret serial numbers in hidden locations on the stolen and retitled vehicles that made my case. The NATB has been helping


ERRY ELLIS SUITS

the police and the FBI on auto theft cases since 1912, and it's high time they got some credit for it. Without them, you might be able to afford the Ferrari, but you'd never be able to handle the insurance premium.

As it had been 34 years since I last investigated an auto theft case, I was curious to learn if it had become more difficult to steal a car, and so consulted Detective Ric Garza of the General Investigations Bureau of the Phoenix Police Department. Because the intervening years have seen the birth of the microchip, the personal computer, laser-guided munitions and Stealth aircraft, I thought it would be much more difficult. Wrong. It's *easier*.

In fact, according to detective Garza, it is so easy that 90% of all stolen car prosecutions in Maricopa County are against juveniles. The stolen cars are almost always recovered within the city limits, and often a short distance away, because the thieves don't even want them—the thefts are occasioned by contests among youths to see who can steal a car the fastest. Current champion is one "Roberto Burtoni" (a fictitious name), age 16, apprehended in the course of his first car theft at age 12, and who has stolen some 500 cars since; all for fun, not profit. Young Mr. Burtoni can steal any locked automobile equipped with either a Saginaw or TRW steering column (which includes the vast majority of General Motors-built automobiles as well as many Chrysler and some American Motors products) with an elapsed time between breaking the driver's side window and drive away of a record *30 seconds*. Equipment needed: one screwdriver.

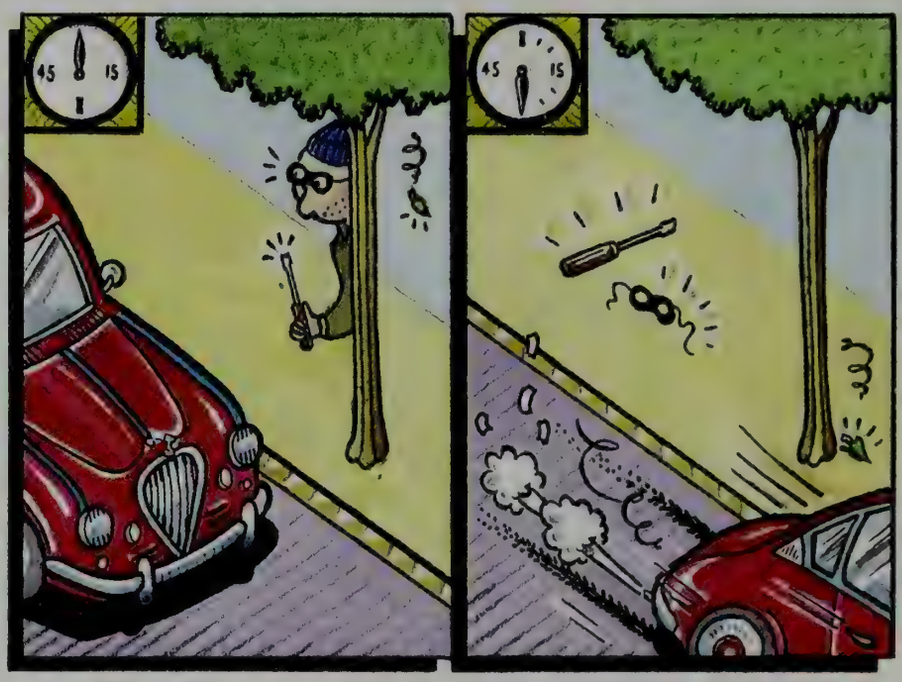
Here, according to Detective Garza, is how it's done:

Step 1: Break a window, reach inside and open door.

Step 2: Enter car, sit down, insert screwdriver into opening in plastic steering column housing provided for windshield wiper and/or turn signal levers and rip it open, exposing the back side of the ignition switch.

Step 3: Locate small plastic gear called "the eight ball" and pop it out with screwdriver.

Step 4: Pull up on exposed metal slide on left of steering column, which starts the car and frees the locked steering wheel, and drive away.



90% of all stolen car prosecutions in Maricopa County, Ariz., are against juveniles. The stolen cars are often recovered a short distance away... The thieves don't even want them—the thefts are contests among youths to see who can steal a car the fastest.

After this episode, you will have your car back within a few days with only a few miles on the odometer, but it will cost you a good $750 to repair the damage (or $500 if you have the typical deductible). All for *fun*.

A professional thief, on the other hand, doesn't want to damage the car he's about to steal any more than necessary. He'll use a "slim jim" tool to go down the window glass to the inside of the door to release the lock of your new car, then rifle the glove compartment for the warranty papers. From them he'll learn the ignition key code. Then he'll repair to the inside of the van he has parked nearby and use the key-cutting machinery he has mounted inside to cut a key to your car, return to it and drive it away.

Your stolen car may be scheduled for re-sale after the VIN has been altered or switched for a salvage VIN and retitled, or it may be slated for export. (The late Mr. Castellano's organization, using the salvage number switch, once sold such a car, then, using a duplicate key, stole the same car back, changed the VIN and resold it to someone else *eight times*.)

In such circumstances, your car has probably been stolen-to-order by thieves who maintain "shopping lists." The lists are acquired by cruising about parking lots, street

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parking in residential areas and other places where one might expect a particular car to be parked regularly. The usual parking locations of desirable automobiles are duly noted. Then, when an order comes in for, say, one Porsche 911 Carrera, the lists are checked, and, sure enough, one is available for theft at a side street off Fifth Avenue on the Upper East Side. The next night, it's gone.

How to protect yourself against all these malefactions? First, you can make a contribution to combating fraud by avoiding the abetting of it. The typical owner of a damaged vehicle asks two things of a proprietor of a prospective repair shop: can you cover the deductible? And, when can I have my car back?

An honest repairman cannot cover the deductible and make a profit. Neither can he have your car finished right away; he has to order and await delivery of factory authorized parts. Not so the dishonest proprietor. He can immediately call upon an inventory of stolen parts from a chop shop and pay so little for them that he can easily cover your deductible and make a handsome profit while delivering the completed repair quickly. Don't patronize him.

Juvenile delinquents engaging in a car theft contest or out for a joyride in your luxury coupe can be discouraged by *visible* anti-theft devices. An invisible device, such as a "kill switch" which shuts off the fuel or ignition if it is not first disengaged, will keep your car there in its parking space, but the $750 worth of damage will have been done before the thief realizes that he picked the wrong car.

Visible devices include "The Hook," a device that fastens to the steering wheel and the brake pedal to immobilize the controls; "The Club," which fastens to the steering wheel and renders it useless, and "The Car Guard," a patented 18-gauge steel, lockable cover for the steering column housing and l side of the column itself. All a brightly colored so as to be read visible to a prospective thief, w will go on to an unprotected vehic rather than tangle with them. T disadvantages of the devices are that th are awkward to use would you consister ly go to the trouble setting and lockir one, then removing just to pop into paper store for a fe minutes? The mo effective device, Th Car Guard, is partic larly difficult for woman to manage.

The thief waits until two a.m., approaches the automobile and gives it a shove, then retreats...By the fourth frustrating trip out to the car to shut off the alarm, the owner has had enough. Vowing to take the damn thing into the alarm dealer for repair, he shuts it off. The next morning the car is gone.

None of thes devices will protec against the dete mined professiona thief who wants you car. The Hook can b removed by pushing heavily on th brake pedal to bend the steerin wheel and slip it off, or by just cu ting the steering wheel itself. Th Club can be defeated by either cu ting the steering wheel or sprayin the narrow adjustment notches wit Freon to make the steel brittl enough to break (The Club's manu facturer, Winner International, say it recently took care of that problem by switching to a higher grade o steel), and the Car Guard can be cu off with an electric saw.

Then there are the alarm system which go off when motion is sensed as the thief breaks into the car These are defeated psychologically The thief waits until two a.m. approaches the automobile and give it a shove, then retreats. The alarm goes off. The sleepy owner rushes out to shut it off before the neighbors lynch him. After he's back in the house and safely in bed, the thief does it again. By the fourth frustrating trip out to the car, the owner has had enough. Vowing to take the damn thing into the alarm dealer for repair the next day, he

shuts it off. The next morning the car is gone.

Ford Motor Company products, which have double-sided keys, offer combination door locks and do not use Saginaw or TRW steering columns, are typically harder to steal. General Motors is belatedly addressing the theft problem by offering, in some of its models, what is billed as a key with "computer chip" or a "microchip." It is actually a variable resistance chip which will not allow the electronic ignition to operate unless sensed by the system. GM has also introduced parts marking to make the marketing of chop shop products to repair shops more difficult because of the risk of subsequent detection, and in 1990 converted all its car and light truck models to a laser-etched VIN plate which includes a scannable bar-code.

In this area of contemporary cheapened life, however, thieves have introduced the ultimate technique in auto theft; one that renders all anti-theft devices save one useless: the auto hijacking. An armed thief waits in hiding near a traffic light, usually but not always at night, approaches the driver of an expensive car who is stopped for a red light, points a gun at his head and orders him out to the car under threat of death.

I mentioned that this method renders all but one protective device moot. The remaining device was recently employed by an off-duty police officer who was the intended victim of a car hijacking. She shot and killed the would-be robber. The lesson is clear. If you can legally have a gun with you in your car, do so. Then stay alert and, when approached by an armed robber, forget 911. Dial .357—but be prepared for a lot of paperwork afterward. ■

G. Gordon Liddy *is the author of the novel,* The Monkey Handlers, *published by St. Martin's Press. He operates the G. Gordon Liddy Academy for Corporate Security in Miami, Fla.*

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OUTDOORS GUIDE

Goormet Gallimaufry: Reback Opens A Restaurant

Dear FYI,

You'll recall that Reback got a new lady—and they made it as permanent as those things get in Truth or Consequences, New Mexico. His eighth, her first. Well, there's always hope.

Anyway, they got back here after an extended honeymoon and Porfiria demanded that Reback get a job. Reback has never had what you could—or would want to—call a job. Oh, he did a little riding and such but he's basically a thief and a lunatic and work don't suit him much.

So he decided to open Reback's Restaurant & Saloon. He rented space in the Murray Hotel, and commenced to doing high kweezeen, figuring that a wild game restaurant would go over big, especially with things on the menu like boiled beaver tail and magpie fritters. Mudlug elk fricassee, dodo omelettes, and the appetizers was all to be stuff he'd picked out of the radiator of Rolling Thunder, his surplus-bought armored personnel carrier.

"We're ass deep here in movie stars and they'll eat *anything*," he said, all chipper. "We got protein hopping across the highways day and night and if it walks or flies it dies and pass the curry. All sorts of rodents, ruminants, and leftovers. Where else can you get a slim roast of grizzly or a muskrat ramble?"

"I LOVE IT WHEN YOU TALK TO ME THAT WAY!" said his new bride Porfiria. That girl seems like one who always was looking for a challenge, and she sure as hell has one.

"I'd as druther eat at McDonald's," I growled.

Reback made impolite noises about my narrow vision.

"Narrow, hell," I says. "I know how this story turns out."

Well, he wore me down and bein low on funds I took on the job of pro curer. This meant I got to racke around the back roads in Rollin Thunder after anything tha crawled, walked or wiggled. I woul get to pick hawks off fenceposts blast porcupines out of trees. Nic work, if you can get it.

I'll do a lot for a friend. Pretty quick the walk-in cooler looked lik the Deliveries room at th Smithsonian.

One day, hungover as all hell an in a partikerlarly misanthropic mood I blew away two llamas and Himalayan Dinkelpfeffer or som damn, expensive, imported thing dressed and skinned them, and hung them on hooks next to the peacocks wild turkeys, porcupines, and a quarter horse what had got into the jimson weed and begun behaving like one of the local teenagers.

Reback clapped a tall chef's hat on his Stetson and commenced stirring this and frying that and chopping up garlic and using ten-dollar words like "soupcon" and "roux" and "saucier".

The menu ran 18 pages, and included everything that runs in Montana but joggers, and most of what swims—I tossed five pounds of dynamite into a deep pool in the dark of night and dipped up trout, whitefish, suckers, sculpins, and a Labrador Retriever.

In a life abundant with demented events this was up there with marriage and politics.

Now, it had never occurred to me that there were folks dumb enough to eat this crap, but come opening night there were lines outside.

There was a howling mob of animal rights activists chanting various slogans, but they stayed outside after one foray which brought Reback boiling out of the kitchen brandishing a cleaver two feet long, stare-eyed and cussing that he'd cube them all and make 'em kebabs.

Some movie crew is forever filming something or other here—and

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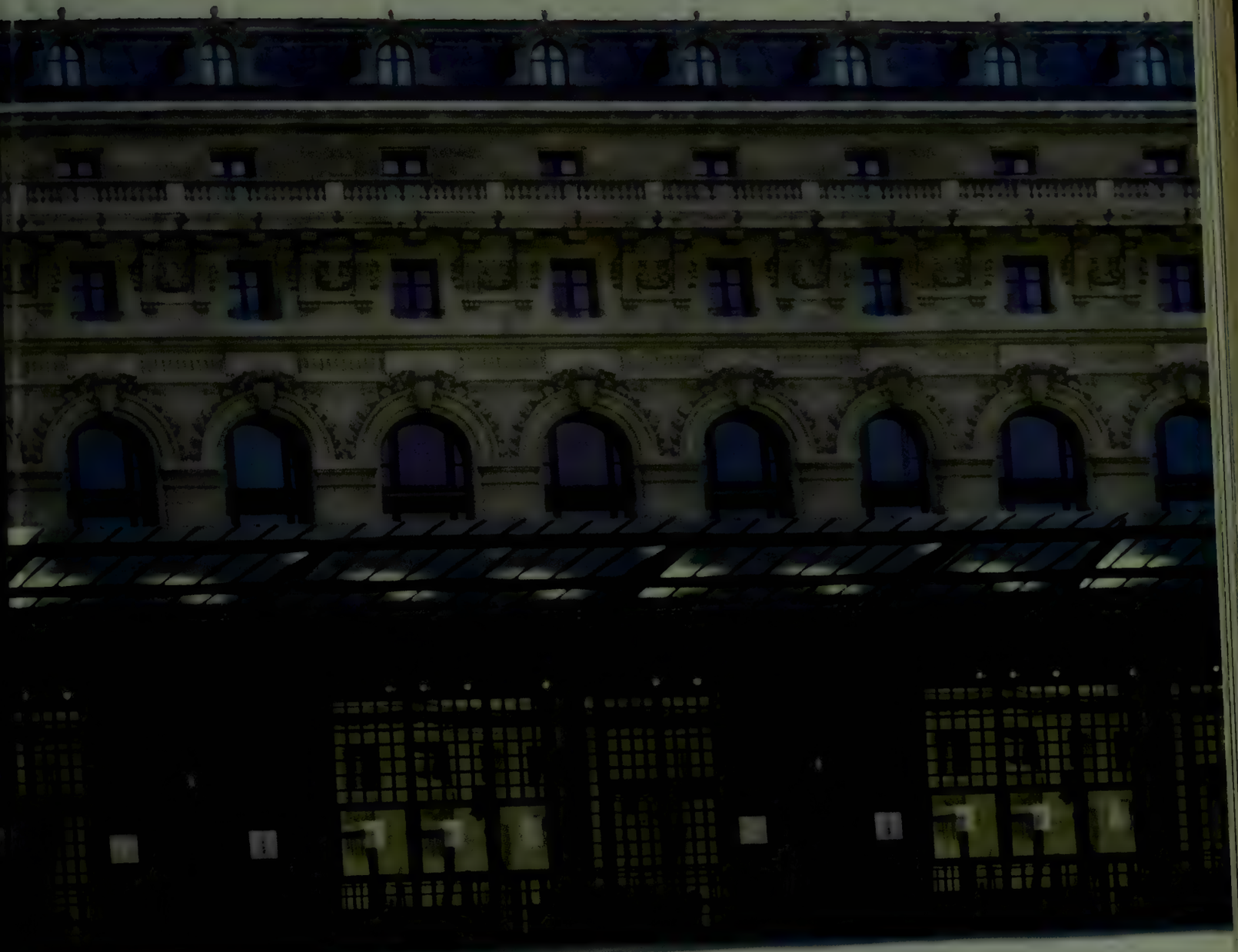

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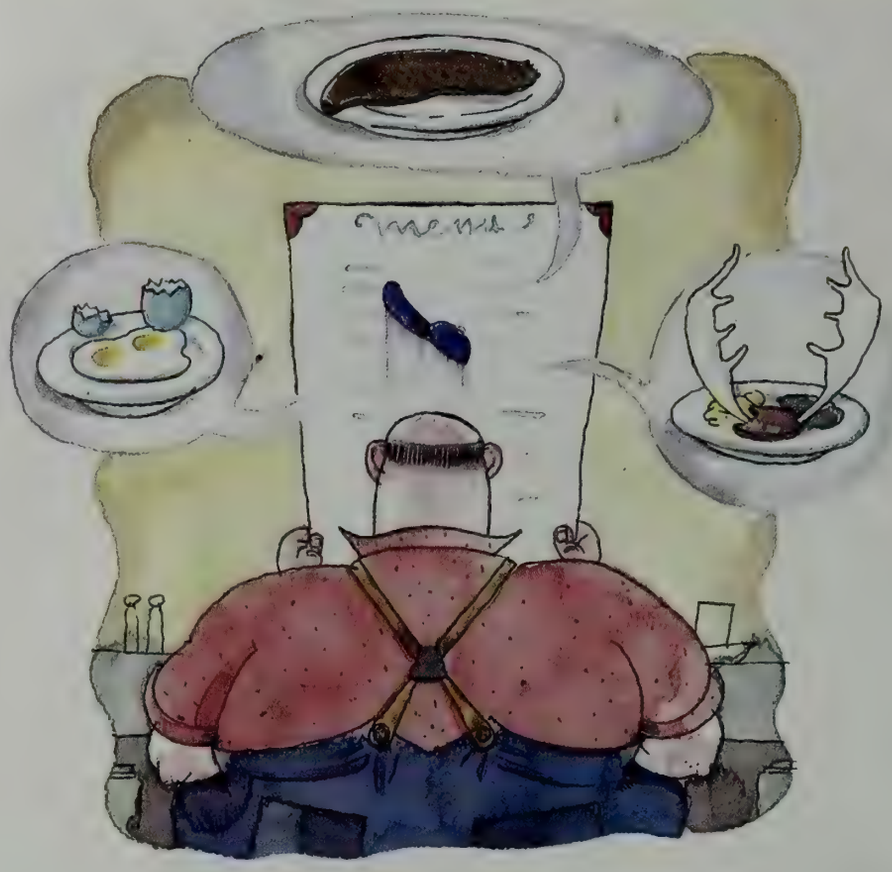


Beaver tail, magpie fitters, mudlug elk fricassee, dodo omelettes...

We got protein hopping across the highways day and night and if it walks or flies it dies and pass the curry. All sorts of rodents, ruminants, and leftovers. Where else can you get a slim roast of grizzly or a muskrat ramble?

they all showed up and tucked into the exotic casseroles and such as apricot, garlic and muskrat stew. The room was full of happy diners throwing off a thick yellow spray as they scarfed away. I could see the franchises: "REBACK'S RECYCLED GOORMET GALLIMAUFRY." I was some puzzled, but then mobs have never exactly made much sense to me.

The first shift staggered out to the lounge for brandy, cigars, and speculations on whatever it was that they just et.

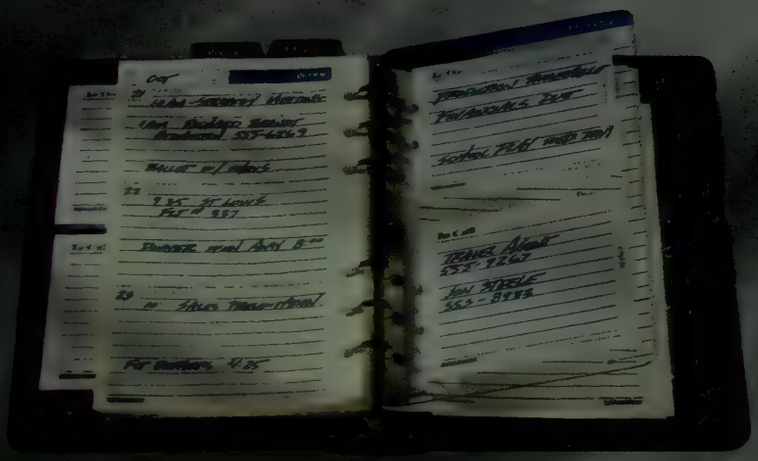
Next there was what seemed to be a passel of food writers. They held forkfuls of whatever up to the light and made notes before chawing down. And frequently got stricken looks before poking away at the mess of whatever, trying to discover food in there somewheres. Loud arguments erupted, and I suddenly realized that *no one believed* that what was on the menu was, by God, on the menu.

Well, the llamas had taken longer to cook than Reback expected, but he had a great stainless steel cart all garnished up with lettuce and pilaf, and he plopped the larger of them low-rent camels on it and rolled the cart right out into the dining room, standing over this crispy critter—had a whole pineapple in its mouth—waving a carving knife made out of an old International truck spring. He commenced slicing off steaming hunks and flopping them onto plates.

I got to racket around after anything that crawled, walked or wiggled.

GUESS WHO NOW MAKES A SIMPLE ORGANIZER THAT USES THESE.

(HERE'S A HINT.)



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Now, camel as you may know is a very strong-smelling meat, sort of like beef boiled in urine. Assuming you are familiar with that particular dish.

Now, camel as you may know is a very strong-smelling meat, sort of like beef boiled in urine. Assuming you are familiar with that particular dish.

Me, I'm standing there in a Levi, Strauss tuxedo, all weathered soft blue, feeling like a fool. Maitre d' indeed.

"What's the secret of that there roux?" I asks. "Ammonia?"

Sundry folks who hadn't enough booze in their radiators got pale looking.

One well-dressed lady stared hard at the menu and she stood up and strode back to the kitchen. I heard Porfiria tell her to get out, then a sound like a watermelon makes when it falls four stories to the sidewalk, and then this eldritch beller:

"OH MY GOD, POOKIE IS HANGING IN THE COOLER!"

Never one to be forward, and it mattering not a sioux to me at this point whether Pookie was the Labrador—though I shoulda taken the damn collar off—or the Himalayan Dinkelpfeffer or one or another rare bird, I sidled through the lounge, and out the door toward Rolling Thunder. I fired it up and eased away from the curb.

Reback come flying through the plate glass window. He picked himself up and run toward me and the APC. He clambered up the side and hung on to the 20-mm. cannon while I ran through the gears and headed through town and then off through someone's horse pasture, hell with the fence.

Sometime later, safe up a dry draw, I got out and clambered up to see if Reback had survived all the brush, stands of trees, fences and the one barn I had to drive through to make good our escape. He was tenderized pretty good.

I slud his moaning body off, poured a huge dram of Wally Water in him, and fishing around inside Rolling Thunder for some new clothes since his had pretty well rubbed off.

"South," he croaked. "I think maybe we orter go south."

"And do what?" I snarled, "Open a puppy-dog taco stand?"

It's a life, I guess. I'll let you know how things turn out. ■

COYOTE JACK *writes novels and such under the name* "Peter Bowen"

WE'RE SO SURE GEVALIA KAFFE WILL BECOME YOUR SWEDISH OBSESSION, THIS ELEGANT GIFT IS YOURS JUST FOR TRYING IT.

Over a century ago, in the small port of Gävle, Sweden, Victor Theodor Engwall started a company that led to a most demanding search. It became a quest that would span generations of Engwalls. Even today they continue their obsession to achieve a coffee blend that comes as close to perfection as possible.

Today, we invite you to share the Engwall obsession, starting with a gift: the European-style Automatic Drip Coffeemaker. It's an ideal way to enjoy the full, rich flavor of Gevalia® Kaffe quickly, simply and at its finest.

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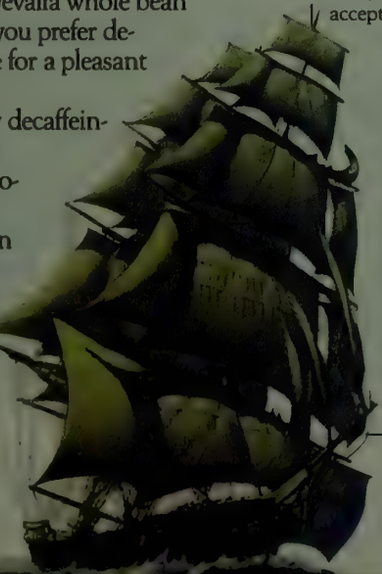
Gevalia naturally decaffeinated coffee is made using a patented process, with the same ingredients found in sparkling water. So caffeine is removed naturally while the magnificent flavor of Gevalia remains intact.



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(RETAIL VALUE $39.95)

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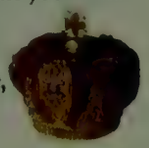
The coffeemaker makes up to four cups at a time, and has a European-style filter cone to ensure full flavor even when making a single cup.

The retail value of this coffeemaker is $39.95. But it is yours as our gift with your Trial Shipment (one pound) of delicious Gevalia Kaffe, with the simple understanding that if after trying it you want more, you will get future shipments through our Import Service.



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A ☐ Traditional Roast Regular
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C ☐ 1/2 lb. Traditional Roast Regular, 1/2 lb. Decaf.

Check One:
1 ☐ Whole Bean 2 ☐ Ground

Check coffeemaker color:
☐ White (95) ☐ Black (96)

Charge my: ☐ MASTERCARD ☐ VISA ☐ AMERICAN EXPRESS ☐ DISCOVER CARD

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Reviews On Tape

A new twist on the oral tradition—a regiment of writers making themselves heard.

. . . . .

By Alan Cheuse

The writer's voice—bass or baritone? alto or soprano? steady or quavering? as closely wedded to the words of a novel or a story as an instrument to a musical score? or speaking more in tune with the prose on the front page of the daily newspaper?

Most readers couldn't answer these questions about their favorite writers until the advent of recording technology. But now, with the help of audio publishers large and small, you can plug the voices of a vast array of storytellers directly into your ear.

Sometimes it's a shock.

That's the effect on me of listening to *24 hours* of Stephen King reading in its entirety the 700 pages of his latest best-seller, *Needful Things* (Penguin HighBridge, $89.95). There was the shock of first hearing King's somewhat nasal Maine twang which, when he turns up the inflection in order to do the dialogue of his large cast, can sometimes feel like having a needle shoved up your nose. And then there was the shock of admitting to myself that, after having slipped the first of the 18 nicely packaged cassettes into my car stereo, I wasn't just going to let it go with a little sampling of King's voice. I was hooked!

The good news is that, if you have a taste for supernatural fiction, King's book is up there with the best of it, at least with the best of his own previous work which, despite the raspberries from snobbish highfalutin academic critics, is pretty damned good for what it is. The bad news is that this year I'm commuting an hour and 15 minutes twice a week from Huntsville, Texas, to Houston, and that's how I've been finding the time to listen King's voice.

Another voice that has accomp nied me on this trip is that Garrison Keillor. Or I should sa *voices*, since the wizard of New A radio has just come out with sever different taped productions. Und that collective title of "More Nev From Lake Wobegon" are four ca settes, varying in length from abou an hour to an hour and a half, *Humo Faith*, *Love* and *Hope*, each publishe by Penguin HighBridge at $9.95 an each containing four monologue taken from live broadcasts of "Prairi Home Companion." Aficionados o the show will certainly want to ow these. A little more rarefied than th monologues is Keillor's new novel *WLT: A Radio Romance* (Penguin HighBridge, $29.95). This six-hou version of his sly, often quite comi cal and sometimes baffling fourth book of fiction, is both bawdier anc from time to time much more nasty than anything the master has done on the airwaves. Even his speaking voice sounds a little different here,

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Having developed one of the

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Delicious might be the word for the voices of some of the writers in this season's batch of recordings. For example, the voice of the world's most famous writer-in-hiding, Salman Rushdie, still on the lam

from the Iranian assassins. In a three-hour version of his most recent work of fiction, the fantasy novel called *Haroun And The Sea Of Stories* (Penguin HighBridge, $15.95), Rushdie reads in tones so Cambridge-bright that they could elevate a laundry bill to the level of Homer and turn an address in a telephone directory to lyric beauty. The Indian-born, British-educated author, long a resident of England (though few people have his address at the moment), turns his imaginative lights on the parable of a storyteller known as the "Shah of Blah." This short novel began as a bed-time tale for his young son and developed into a brilliant allegory about the role of the writer in the world. More images flash past in Rushdie's reading than trees along the highway.

But do we have a native American who can read as beautifully as ex-colonial Rushdie? Yes, and he's a Native American, the novelist and poet N. Scott Momaday, whose *House Made Of Dawn* won the Pulitzer Prize some years ago. Momaday may have the most mellifluent and appealing speaking voice of any writer at work in the U.S. today. He uses it to fine advantage on *Storyteller* (Lotus Press, $9.95) for an hour of stories, poems and a long excerpt from his novel *The Ancient Child*. Momaday is a Kiowa by birth and a writer-poet by destiny. He turns language into something like the water sprung from the Biblical rock struck by Aaron's rod

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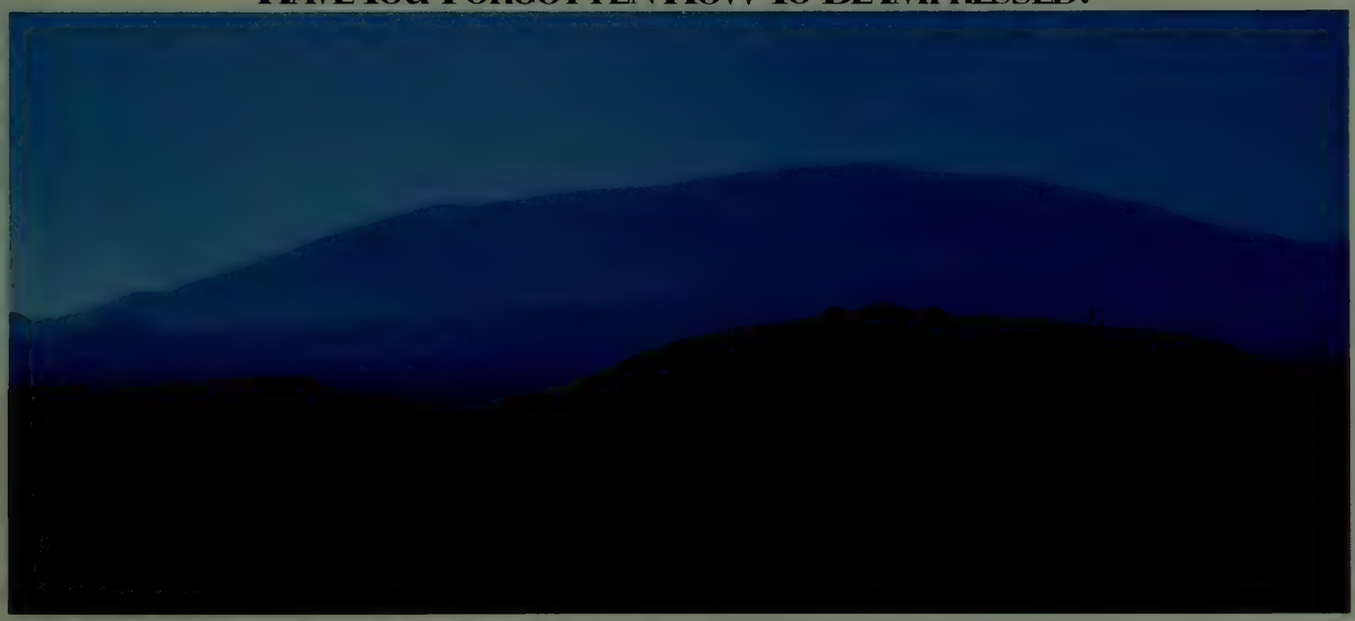

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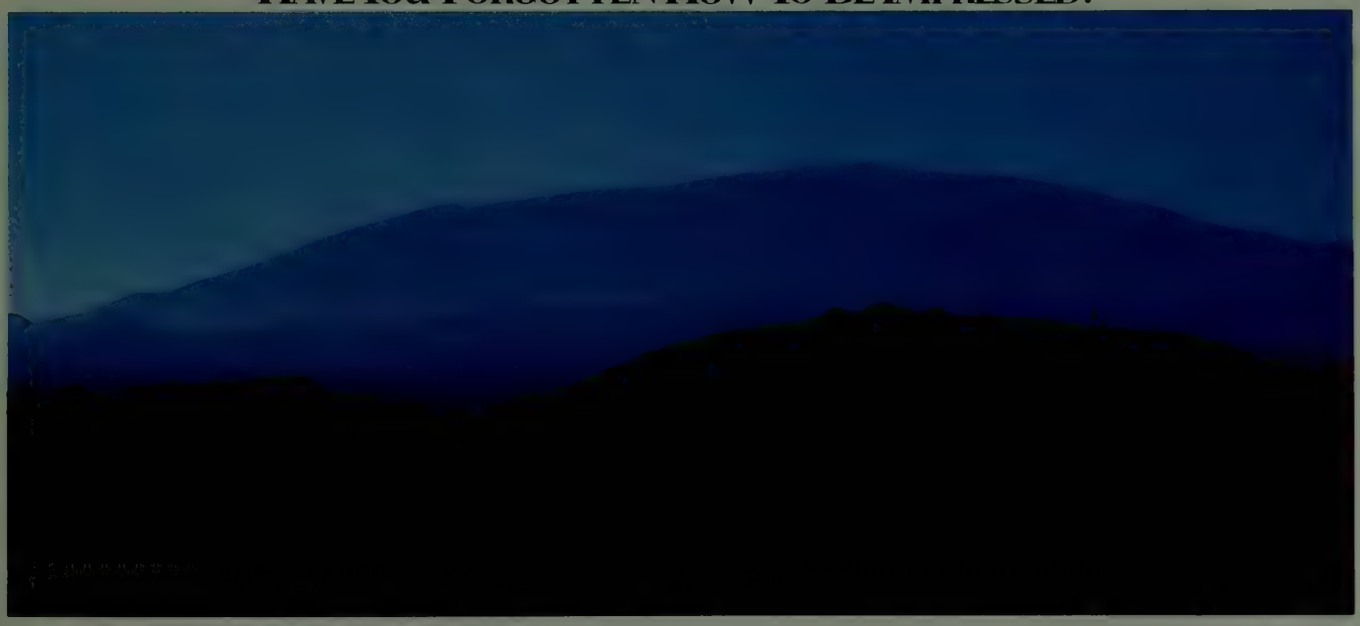

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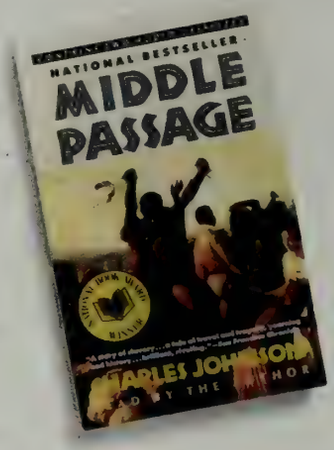
and offers a marvelous rhetorical alternative to the American plain-style (no pun intended). An hour of Momaday will whet your



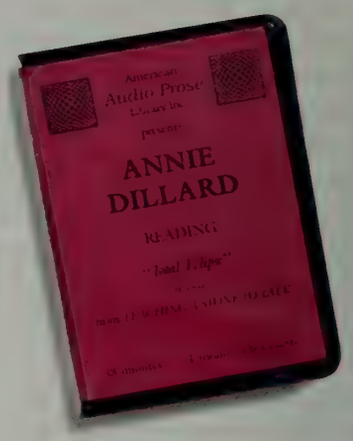
appetite for reading some of his complete works.

I'm afraid that listening to three hours of Charles Johnson reading from his prize-winning novel, *Middle Passage* (Penguin HighBridge, $15.95), may have somewhat the opposite effect. Johnson does not have a great reading voice—he just doesn't—and so even if you admired this novel on the page, you're going to grow impatient with it as you listen. This audio version is also an adaptation made by hands other than the author's, and so the combination of truncated narrative and not-so-great voice makes this a less compelling venture than most. I'd recommend *reading* the novel, a historical fiction about a freed slave named Rutherford Calhoun and his adventures on the slave ship *The Republic*, instead.

Along with Stephen King, Tom Clancy and Tony Hillerman seem to be vying for the title of most-recorded author of the decade. While Clancy has yet to commit his own voice to tape, Hillerman, a number of whose Navajo detectives are already available in their entirety from Recorded Books, reads abridged versions of *A Thief Of Time*, *The Blessing Way*, *Talking God*, *Skinwalkers* and *Coyote Waits* (all Harper Audio, $16).

Harper Audio is in fact the owner of the granddaddy of all audio ventures, the old Caedmon Records line, whose backlist includes the voices of such literary masters as T.S. Eliot, James Joyce, William Faulkner and Dylan Thomas. And even as you're passing your eyes along this line, Harper is shipping ten recordings from the old Caedmon list, remastered and repackaged, to bookstores around the country. Among these are *T.S. Eliot* (Harper Audio, $19) reading from *Four Quartets* and the complete *The Wasteland*, and *William Faulkner* (Harper Audio, $12) reading from his great novel *As I Lay Dying*.

The spirit of the old Caedmon label is alive and well at American Audio Prose Library. There's hardly an interesting contemporary writer whom they haven't got on tape (except perhaps for yours truly and a half-dozen of his writing friends), and in many instances you can hear these writers speak a short story or two in their entirety. There's the gifted Richard Ford reading the title story from his powerful collection *Rock Springs*, and the first chapter of *The Sportswriter*, and the late great Raymond Carver doing three of the stories—"Nobody Said Anything," "A Serious Talk" and "Fat"—that have endeared him to an entire generation of fiction lovers. They've got Pulitzer Prize-winner Annie Dillard reading her extraordinary narrative essay "Total Eclipse" from her collection *Teaching A Stone To Talk*, and E.L. Doctorow reading two stories—"The Writer In The Family" and "The Leather Man"—from his collection *Lives Of The Poets*. Most of these tapes run about an hour and cost around $14. A list of *all* the writers taped by AAPL would take up an entire page of this magazine. So write to P.O. Box 842, Columbia, MO 65205, or call 800-447-2275 for a catalogue. Order a half-dozen or more and you can make a literary festival right in your own ear.



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ALAN CHEUSE's *latest novel*, The Light Possessed, *is published by Harper Perennial.*

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The Golf Bag

Bad Boys On Tour

. . . . .

By James Y. Bartlett

It was one of the most compelling scenes in the world of golf in 1991. Better than the 18th-hole dramatics at the Ryder Cup. Better than Long John Daly nuking his drives. Better than Phil Mickelson insulting Irish women on national TV.

It was Hulk Hogan versus the Masked Marauder. Dempsey against Tunney. Greece versus Troy.

It happened at the Transamerica Senior Golf Championship in Napa, Calif., at the Senior PGA Tour stop there in October.

The scene was the practice range at the Silverado Country Club after the second round. This particular range has hitting areas at both ends. A crowd of about a thousand fans had gathered at the bleachers at one end of the range to watch an exhibition by trick-shot artist Dennis Walters. Before the exhibition began, J.C. Snead and Rocky Thompson were getting in some late afternoon practice, launching drivers down the range.

At the other end, Dave Hill was practicing his irons, alongside some other senior tourers.

Now, J.C. and Rocky are two of the longest knockers on the Senior Tour. The wind was at their backs, and the fans who had gathered were oooh-ing and aaah-ing with every shot. When a couple of their shots carried down the length of the range and began falling too close to the pros on the other end, Dave Hill waved his hat and yelled at them to be careful.

Rocky Thompson put his club away. But ol' J.C., a spit-in-your-eye country boy from the hills of Virginia, kept loading up and lettin' fly, as his uncle Slammin' Sam would say. The fans whooped and cheered as Snead kept pounding away.

One of his shots plunked a golf cart parked down range. Sitting in the golf cart was Dave Hill's wife Joyce. Smoke began pouring out of Hill's ears.

He then charged across the range, spitting with anger. But ol' J.C. was waiting for him. First they dueled with their clubs. *En garde!* Snead's épée reportedly suffered damage. Then they grappled with each other, rolling around on the grass until some caddies pulled them apart. (We're lucky they didn't have a couple of longnecked Buds and a table edge near at hand, or somebody might have gotten cut.)

Bob Jones once wrote, "Golf may be...a sophisticated game. At least, it is usually played with the outward appearance of great dignity. It is, nevertheless, a game of considerable passion, either of the explosive type, or that which burns inwardly and sears the soul."

Now if you believe the press releases put out by the PGA Tour, all professional golfers are true sportsmen who never lie, never cheat, never swear and help raise around $25 million a year for charity.

NOT!

Anybody who's played the game knows that occasionally passion overflows and true character comes out. In addition to the spectacle of two otherwise normal 50-plus-year-old men grappling in the dirt, the Tour is replete with earthy passions, blood feuds, cheap shots and personal enmities.

In addition to Hill and Snead, make a note never to invite Tom Watson and Gary Player to play in the same foursome. Watson, remember, privately chastised Player for cheating during an early edition of the Skins game: he said Gary moved a leaf from behind his ball in a bunker. Overheard, the charge went public, and Player heatedly denied it. The feisty South African returned the favor last summer by charging in

To Succeed In Business, You've Got To Show The Competition Exactly What You're Made Of.

Every shoe company claims they make quality shoes. But, when asked to support their claims, they offer only flowery

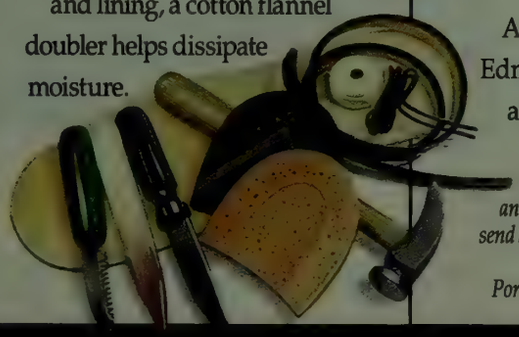
prose, or romantic depictions of old-world craftsmanship. At Allen-Edmonds, quality is an easily defensible position. We prefer explaining exactly how our shoes are made. And, in turn, prove to our customers that Allen-Edmonds are the world's finest shoes, made right here, in America. Our suppliers say no one is as discriminating when selecting leather. Every shoe is created on exclusively-designed foot molds, called "lasts." Only the finest natural materials are used.

:●:

The welt — a piece of leather holding the insole, the outsole and shoe upper together — runs a full 360° around the sole. Other shoes utilize a 180° welt, or no welt at all.

:●:

Between the sole and insole, we put a layer of natural cork for added cushion. Between the outer leather and lining, a cotton flannel doubler helps dissipate moisture.



Allen-Edmonds shoes are so well crafted, they can be recrafted, at our factory, a number of times. To extend their life even longer.

:●:

So, next time some shoemaker begins claiming quality, look them straight in the eye and ask for facts. You'll find out exactly what they're made of.

:●:

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J. C. Snead: it's all in the fists.

his book—released just before the British Open—that Watson knowingly played with non-complying equipment in 1977. Watson denied the charge.

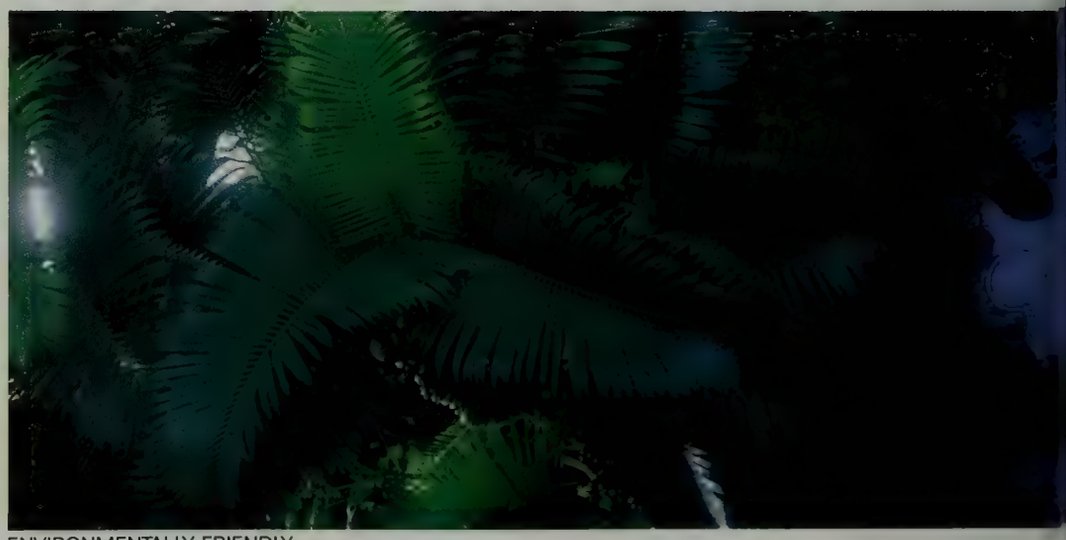
Seve Ballesteros and Paul Azinger are another fun couple. Seve thinks Zinger took a rather liberal drop on the 18th hole at The Belfry in the 1989 Ryder Cup, in a knock-down match during which Zinger refused Seve's request to replace a scuffed ball. And they're still talking about this year's Ryder contretemps, when Zinger and Beck played the wrong ball during an alternate-shot match against Seve and Olazabal. The Spaniards didn't call the Americans on the violation when it happened, so, in effect, the U.S. got away with it.

Zinger upped the ante by calling Seve "the king of gamesmanship," saying he pulls neat little tricks like clearing his throat just before an opponent swings. The next morning, first tee, the Spaniards against Fred Couples and Ray Floyd, Couples has just teed up his ball when Seve begins hacking in the background. Raymond gives Seve one of his famous Darth Vader glares. Throat quickly clears up.

One of my favorite Bad Boy stories concerns a now-retired pro whom propriety forbids me to name. Suffice it to say, however, that this occasionally temperamental pro's clubs may have had more air time than the late, lamented Pan Am.

One afternoon, during a hot, mid-summer tournament, the pro was having a bad day, especially on the greens. Near the end of his round, probably at the 16th hole or so, he pulled a makeable ten-footer and missed another birdie. His neck turned a dangerous shade of red, and he strung together a rather imaginative construction of obscenities, about half of which began with the letter "F."

Green. Peace. Bangkok.



ENVIRONMENTALLY FRIENDLY

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It just so happened that two proverbial little old ladies were standing on the edge of the green, and they heard every last syllable. Mortified, the ladies sought out the nearest PGA official, who turns out to have been none other than the commissioner at the time: the elegant, honorable, distinguished and erudite Joseph C. Dey Jr.

When the pro came off the 18th, Dey and the ladies were waiting.

"We have a problem," said Dey, sternly.

The pro looked daggers.

"These ladies said they heard you use audible bad language on the 16th green," Dey continued. "They are quite upset, and so am I. I have warned you before about this, and I have no recourse but to fine you $100."

The women, looking on, nodded approvingly.

Without saying a word, the pro reached into his pocket and pulled out a thick wad of currency. He pulled off three one-hundred-dollar bills and handed them to Dey.

"No, no," Dey said protesting. "It's only a $100 fine."

"It's the right amount, Joe," the pro returned. Then, he turned and pointed a beefy finger at the first little old lady.

"F— you," he said. He swung on the other lady. "And f— you too."

Obviously, not every PGA Tour player lives up to the carefully manicured public image that the PGA likes to present. There are, of course, many who do. You can sit down with a Fuzzy Zoeller or a Freddie Couples over a couple of beers and have a high old time.

And while one can forgive a pro

The Tour is replete with earthy passions, blood feuds, cheap shots and personal enmities...Make a note never to invite Tom Watson and Gary Player to play in the same foursome.

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Seve Ballesteros (shown above with José Maria Olazabal): phlegm fatale.

Raymond Floyd (at left): some balls.

an occasional bad day, there are some who seem to make a career of it.

Take Raymond Floyd, for instance. His image is of a fierce competitor (true) on the course, and a relaxed, revered, senior statesman of the game off it. (Uh-uh.)

Two weekend before last fall's dramatic Ryder Cup matches, Raymond flew into Charleston with Couples and Lanny Wadkins for a practice round. The players decided to walk the course and needed caddies. So a couple of the club professionals at Kiawah Island resort's other golf courses volunteered to handle the bags. Rah-rah-rah for the ol' U.S.A. and all that.

On the first tee, the young club pro introduced himself. Raymond barely responded. After hitting his approach to the first green, Raymond pointed down at his divot in the fairway, snapped "fix that," and walked off.

Floyd was like that all day long, at least to his looper. He joked and talked with his playing partners, but he spoke nary a word, except in rough command, to his caddy.

Finally, however, walking off the 18th green, Raymond Floyd spoke.

"Hey," he said, "you can keep those balls I played with today if you want."

That was not only the only complete sentence Floyd gave his caddy that day, it was the only payment as well. The pro kept his four golf balls as anti-souvenirs. Raymond apparently kept most of the $284,897 he won last year.

Not all the Bad Boy stories belong to the players. Tournament officials are also fair game.

Tim Simpson, who has occasionally lapsed into Bad Boydom on Tour himself, related a story that illustrates why players both enjoy and abhor the Masters experience at Augusta National.

Augusta in the springtime, of course, is more than just a golf tournament, it's an event, an epic, a pilgrimage to the holy shrine. Simpson, who lives in nearby Atlanta, had a large contingent of friends and family on hand one year, including wife and young son, about 18 months.

During a practice round, when things are loose and friendly, the players are joking and laughing and wagering, and the fans get a chance to get up close and personal with their heroes, Simpson came off the ninth green. During the walk up the hill to the 10th tee, he was intercepted by his entourage.

He scooped up his son Christopher and carried him on the tee. After Simpson's foursome drove off, he carried the boy on down the long, curving hill on the tenth fairway, getting in a little father-son bonding in the warm spring sun.

Waiting at the bottom of the hill was one of Augusta's gnomes, the distinguished grey beard club members who serve as tournament officials, and who make sure that the world's most tightly run tournament never varies from its hoary script. Augusta National's unofficial motto is "Our Way Or The Highway."

"I've been asked to inform you that family members must be kept behind the ropes," the gnome said, pointing to the burbling bundle of joy in Simpson's arms.

Simpson's first impulse was to tell the guy to soak his head in Rae's Creek. But he didn't. Because golf, after all, is a game of gentlemanly sportsmanship whose players never curse, never get angry, and never, ever, let emotions sear their souls.

NOT!

JAMES Y. BARTLETT's *second golfing mystery*, Death From The Ladies Tee, *will be published this summer by St. Martin's Press.*

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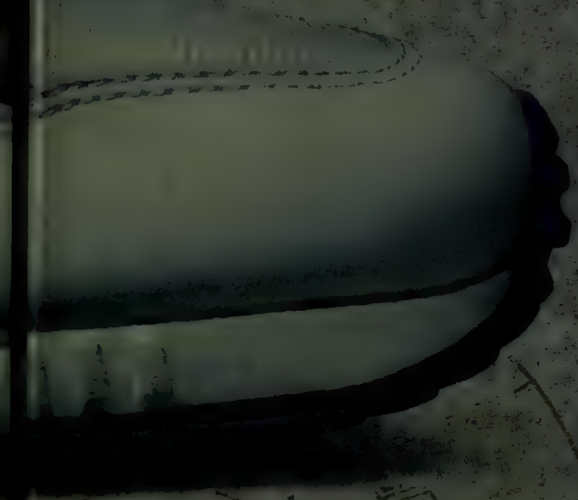
M997	•	•	•	•	•
M900		•	•	•	
M850		•	•	•	
M677		•	•	•	•
M580		•	•	•	•
M577		•	•	•	•
M520		•	•	•	•
M495		•	•	•	•
M480			•	•	
RC630			•		

WOMEN	NARROW AA	B	D	WIDE EE
W997	•	•	•	
W677	•	•	•	
W526	•	•	•	•
W320	•	•	•	
W495	•	•	•	
W480	•	•		



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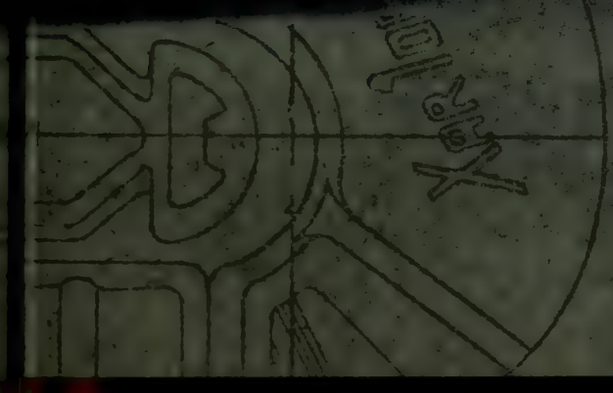

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MEN	M1500	M1500	M1500	M997	RC630	M1500	M1500	M1500	M997	M1500	M1500	M1500	M900	M677
	M997	M997	M997	M580	M900	M997	M997	M997	M900	M850	M997	M997	M850	M580
	M677	M900	M900	M577	M850	M677	M677	M900	M580	M677	M677	M900		M577
	M580	M850	M850			M580	M580	M580	M577	M495	M580	M850		
	M577	M677	M677			M577	M577	M577	M520	M480		M677		
	M520	M580	M580				M495	M520	M495			M580		
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		M480	M480									M480		
WOMEN	W997	W526	W997	W997			W997	W997	W997	W997	W997	W997		W677
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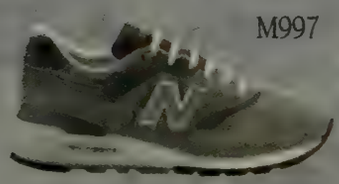
MEN

M1500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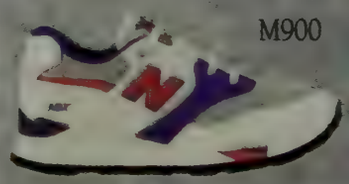
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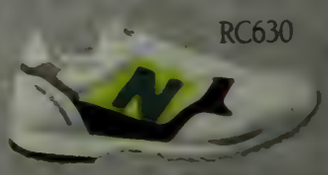
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THE ART OF TRAVEL

The Man In The Zane Grey Flannel Suit

. . . . .

By Christopher Buckley

No, no, no, Charles Gaines wants you to understand, *I did not "discover" Arnold Schwarzenegger. I was just fortunate to have met him first.*

The Terminator had popped up amidst a chat about hunting and fishing. Gaines had just returned from spending a few days with Arnie, and had watched him read the riot act to a bunch of Midwestern governors in his capacity as head of the President's Council on Physical Fitness and Sports. Gaines and Conan the Republican have been friends since Gaines's 1974 book *Pumping Iron* introduced the Austrian bodybuilder to the world. Gaines subsequently wrote the screenplay to his first novel—and Schwarzenegger's first movie—*Staying Hungry*. But enough about Arnie, let's get back to pumping shotguns...

Gaines founded Pathways International, one of the best and most innovative purveyors of sporting travel in the country. Hankering to shoot Red-legged Partridge in Spain? To cast for giant taimen in Siberia? To grapple with the ornery black bass of New Guinea? Call 800-628-5060. Or write Box 3276, Spartanburg, SC 29304.

Gaines got into the business in 1985 after making a documentary about that greatest of all American angler-adventurers, Zane Grey. "Grey was probably the first American to travel exclusively for fishing," says Gaines. "He went over to New Zealand in 1916 and just caught God's own amount of marlin and thresher and mako sharks, all sorts of things." Gaines and New Zealand filmmaker Geoff Thomas located Grey's old boat, the *Avalon*. They got Hardy Brothers to provide the tackle he'd used, and even tracked down the man who'd served aboard as mate.

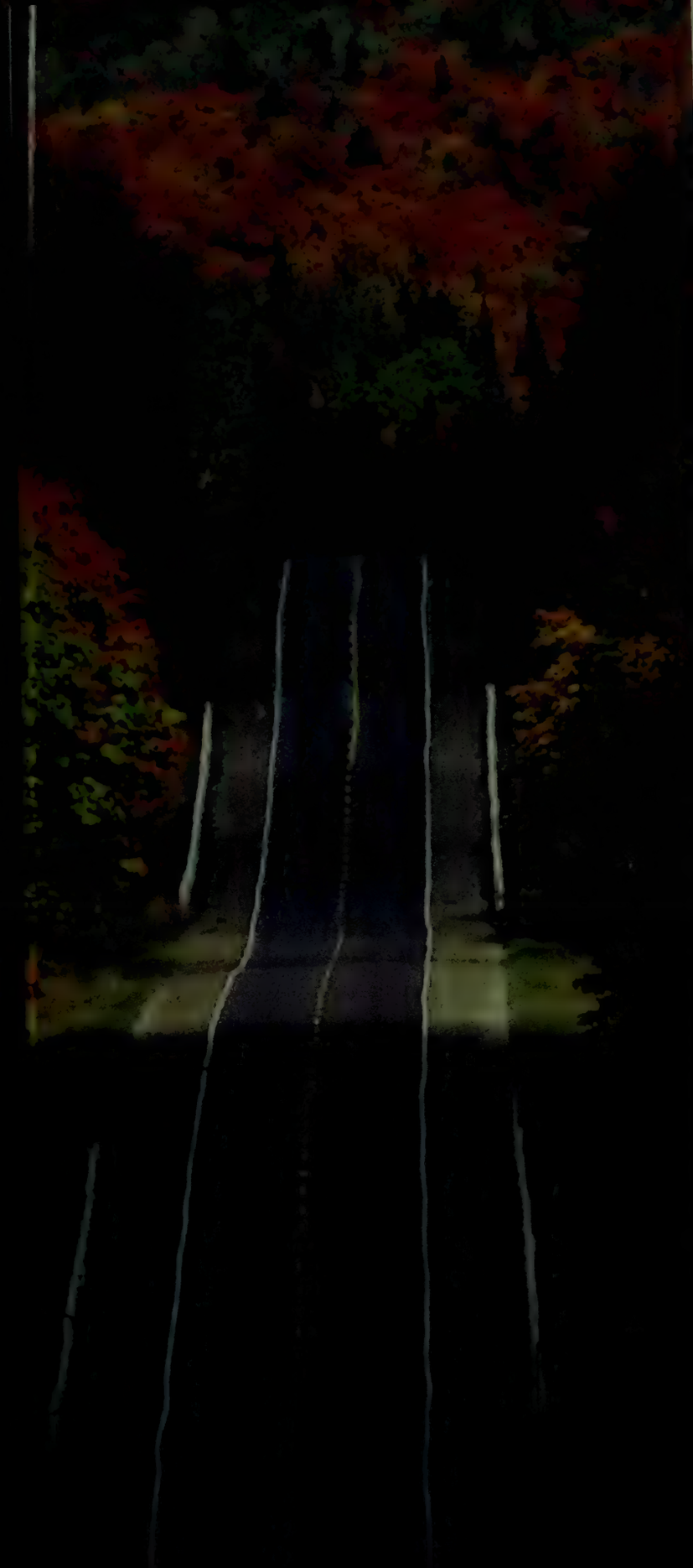
The New Zealand tourist board invited Gaines back to make more films. He and his wife Patricia, a former Miss Alabama, spent weeks exploring the islands, and in the course of film-shooting, a light bulb went off. Most American anglers didn't know about the extraordinary fishing there, or, if they did, they were at a loss as to how to organize an itinerary. The American fishermen who did get over there, says Gaines, "were winding up in areas that were too difficult for them. Some of them were people who'd had hip replacements and were being sent places where they had to walk 15 miles over boulders to where the fish were. They were not being *fitted* to the right trip."

He and Geoff Thomas began to custom-tailor trips for a client list that quickly grew. "We'd spend a lot of time over the phone with them, finding out what their experience was, what exactly they wanted. We fit them the way you would a suit. And it worked. It was a whole new approach to angling travel, not a department store where you got your trips off-the-rack, but a boutique."

Soon they were putting together trips to, among other destinations, Australia's Great Barrier Reef. One Arab client—who brought his own film crew—dropped $96,000 for ten days of black marlin fishing. (It can be done for less, say, $1,000 per person per day.) The two also arranged trips into the North Territories and Queensland, where he found "the most interesting and varied light tackle sportfishing in the world," including barramundi, giant trevalli, and queenfish. During a float trip down the Jardine River, they caught saratoga, "kin to the coelecanth, one of the oldest fish alive. We were probably the first to fly-fish that river," says Gaines, "and that was a thrilling experience."

At the time we spoke, he was busy working with Norwegian outfitter Johan Abelsson arranging to

THE HOOK.



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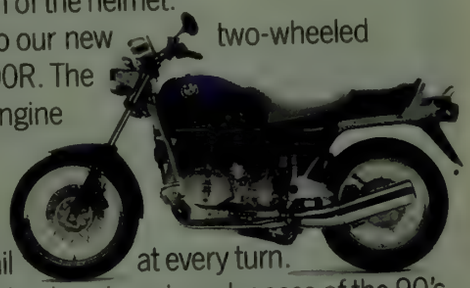

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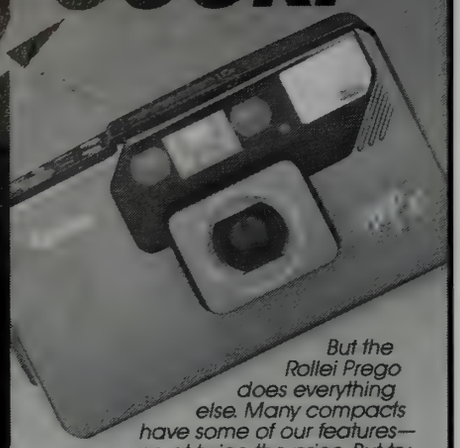
OK, so it can't cook!



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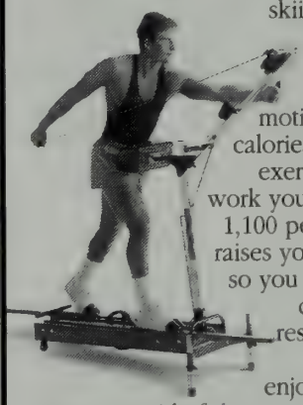

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Home Is Not The Hunter:

Where To Be And When

Suppose you could take a year off and just go fishing and shooting? We asked Charles Gaines how he would spend such a year:

JANUARY—Quepos, on the west coast of Costa Rica, for sailfish on a fly rod.

FEBRUARY—New Zealand. "There's no other place to be." For trout. And to the Bay of Islands for marlin.

MARCH—Arroyo Verde in Argentina, for land-locked salmon on the Traful. (Featured in a previous FYI.) Entre Ríos, for doves. The Malleo and Chimhuin rivers for trout. End up on the Rio Grande in Tierra del Fuego for the giant, sea-run brown trout.

APRIL—From Argentina, cross the Andes into southern Chile for trout, especially around and south of Puerto Montt.

MAY—The Test River in England for the mayfly hatch. The giant tarpon at Homosassa, Florida. Bonefishing at Andros Island in the Bahamas.

JUNE—Back to the Entre Ríos in Argentina for ducks, geese, dove, and Tinamou.

JULY—Labrador for the Atlantic salmon and the giant brown trout. "They're like jewels, those fish." Stay at the Anne Marie Lodge for the trout, Lower Eagle River Lodge for the salmon.

AUGUST—The Bristol Bay Lodge in Alaska, for the grand Salmo slam: King, coho, sockeye, chum; Dolly Varden, rainbow, greyling. Finish off with a week in Western Russia for Atlantic salmon. What the hey.

SEPTEMBER—"God, September is such a wonderful month. I'd start out at the Bow River in Calgary, one of the world's greatest trout rivers, then head into Montana to the Beaverhead with Bob Butler. Then to the Eagle's Nest Lodge on the Big Horn River for their fabulous trout fishing and Hungarian Partridge and Sharp-tailed Grouse shooting. Then I'd go to far eastern Montana, to Glendive and just shoot some more."

OCTOBER—"The best month of all." Back to the Canadian Maritimes, this time to New Brunswick for Atlantic salmon and to shoot woodcock and grouse at the Old River Lodge on the Miramichi River. Finish up on Prince Edward Island, site of "the best Canada goose shooting in this hemisphere."

NOVEMBER—The Annapolis Valley of Nova Scotia, for pheasant. "Nobody knows about it." [Now they do.] Then catch a plane late in the month for Lizard Island on the Great Barrier Reef, to fish for black marlin up to and over 1,000 pounds.

DECEMBER—"I'd rest up and get ready to do it all over again. Well...I might sneak to Christmas Island for bonefishing or Belize and Honduras for bonefish and tarpon."

send American salmon fisherman to the Namsen and the Aargard, two of the finest "big salmon rivers in the world."

Another front-burner project is setting up Pathways' own sportfishing boat in Costa Rica, which has recently become this hemisphere's hottest spot for light-tackle and fly-rod billfishing. In nearby Belize and Honduras, Pathways sends anglers throwing flies to bonefish and permit—"the best cure I know of for the common cold."

(Bonus bonefishing tip: Christmas Island, south of Hawaii, "probably has the best bonefishing in the world right now." Also hot: Los Roques, a string of islands one hour's flight north of Caracas. Pathways is working with an architect to set up a luxury lodge there.)

So much for fish. What about feathers?

"Probably the world-wide top birdshooting destination right now is Argentina. Lots of birds and no environmental jeopardy. Here [in the U.S.] you feel like a heel every time you shoot a duck because they're in such short supply. In the Eastern Flyway, you can only shoot one black duck a day." Gaines says he won't even hunt ducks on the East Coast anymore. "But in South America there's a great abundance, so you can shoot with a certain freedom of conscience." (Though Pathways has initiated self-imposed shooting limits with its clients in Argentina.)

Through friends, he can provide access to the great *estancias*, or shooting lodges, in the Entre Ríos and Cordoba provinces there, where you can hunt ducks, dove and the partridge-like *perdiz* all in the same day. Cost: about $500 per person per day.

If it's driven pheasant-shooting in England you're after, Pathways can set that up, too, for between $4,000 and $20,000 per person. But the "most storied shooting of all," he says, involves the "unparalleled and spectacular" Red-legged Partridge in Spain. Pathways can send clients to a 160,000-acre ducal estate in Andalucia for a week of driven shooting. Cost: $8,800 per person per week; $5,000 for three days.

One early Pathways disaster involved a Norwegian salmon-fishing destination favored by King Olav. The hotel turned out to be a fleabag, the river devoid of fish. They refunded the clients' money. After that Gaines and his staff personally checked out every place on their itineraries. These advance trips can be memorable. He describes standing on a runway in Honduras with Patricia, watching a plane nosedive into the ocean. Their plane, as it turned out. "You've got to leave yourself open," he says in his companionable Alabaman accent. "We do deal in adventure travel."

Bonus bonefishing tip: Christmas Island, south of Hawaii

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Adventure traveler Charles Gaines

Tips On Tackle

If you're going to bring your grandfather's venerable rods with you, Gaines's advice is to "insure the hell out of them. Rods break easily, and the airlines have been known to treat them like Visigoths." Gaines uses travel rods that break down into three or four pieces. He also packs all his reels and flies and what-have-yous into one carry-on bag—along with a dopp kit and a change of clothes. "Then if all the stuff gets lost, I can still fish."

On transporting shotguns: "Some of our clients going to Mexico have found it preferable to leave their own at home and use lodge-supplied guns, which are quite good. Same applies to Argentina, where the guns are of excellent quality." If you're headed to England, "be prepared to spend some time at Heathrow. The process of getting your guns in is more time-consuming than it should be."

Something you might not have known: "Argentina is one of the few places where you can bring your own hunting dog. There's no quarantine."

What to wear: Gaines recommends the Barbour line of shooting clothes. Simms, of Jackson Hole, Wyo., "makes a revolutionary line of fishing clothes under the name of Tarponwear."

One last thing: "There have been a lot of technical innovations in fishing, and a lot of competitive hype. Most beginning anglers way overequip themselves. A lot of our New Zealand guides say, 'Why don't your clients spend some of all that money on learning how to cast?' It's a constant source of curiosity to the Kiwis." He suggests going to a local flyfishing shop and trying the equipment out in order to gear it to your ability, rather than to your wallet ■.

I BEAT HIM at the country club. The grass was *too long*. I beat him at Pebble Beach. The grass was *too short*. I beat him at St. Andrews. There was a ROCK in the way. Finally, I called his bluff. This time, it was the FELT. "*How smooth does it have to be?*" I begged. Smiling, he held forth his glass of *Glenfiddich® single malt Scotch*. I sighed. Tennis anyone?

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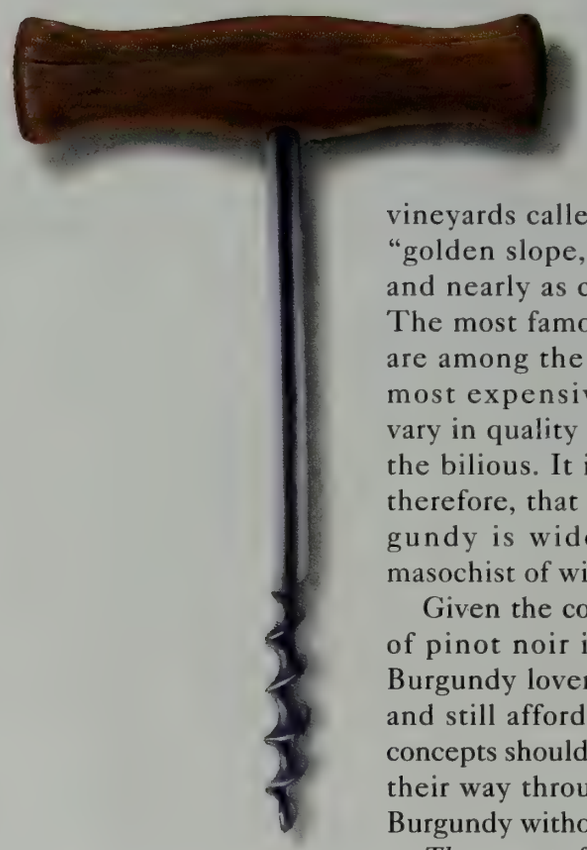
Grape Juice

Pinot Envy: Deciphering The Mysteries Of Burgundy

. . . . .

By Stephen Tanzer



It is somehow fitting that the world's most elegant, complex and sensuous red wine grape is also the most exasperating. The fragile pinot noir, which reaches its apotheosis in Burgundy's 30-mile-long strip of vineyards called the Côte d'Or, or "golden slope," is a beast to grow and nearly as complicated to buy. The most famous Burgundy labels are among the planet's rarest and most expensive wines, yet they vary in quality from the sublime to the bilious. It is hardly surprising, therefore, that the amateur of Burgundy is widely viewed as the masochist of winedom.

Given the cost and inconsistency of pinot noir in general, can the Burgundy lover find the good stuff and still afford lunch? A few basic concepts should help neophytes pick their way through the vineyards of Burgundy without getting stuck.

The concept of terroir. "Terroir" is a nebulous notion incorporating everything that contributes to the distinctiveness of a particular vineyard site: its soil and subsoil, drainage, slope and elevation, and its microclimate, which in turn includes temperature and precipitation, exposure to the sun, and the like. The concept of terroir is crucial to pinot noir because this grape variety is hypersensitive to its environment, reflecting the slightest nuances of soil and climate in its tastes and textures. Whereas most wines made from cabernet sauvignon will demonstrate that grape's characteristic deep color, blackcurrant flavor, and firmly tannic structure with regional variations on this theme, the pinot noir is chameleon-like but at the same time a far less adaptable international traveler. If the climate is too cool, the wines tend to be weedy and pale; if too warm, they can turn out pruney or overly tannic. Too-rich soils can produce excessive crop loads or ponderous wines devoid of nuance.

The quest for the holy pinot is hardly limited to the wine drinker. Winemakers from Portland to Perth have tried to duplicate the perfumed raspberry, strawberry and cherry aromas and flavors of red Burgundy, as well as its silky texture, intensity of flavor without excessive weight, and subtle hints of flowers, spice, minerals and earth. But meteorologically speaking, the margin for error is slight. Thus the Côte d'Or still has no serious competition on a large scale (though it must be said that better and better examples are being produced by boutique wineries in Oregon and cooler spots in California and Australia).

The classification of Burgundy. Compared with German labels (say, Mertesdorfer Lorenzhöfer Felslay Riesling Kabinett Halbtrocken), Burgundy labels don't require a degree in Esperanto, merely a basic knowledge of appellations. Pinot noir in Burgundy is classified into five categories based upon the quality of terroir (the same hierarchy applies to Burgundy's white wines made from chardonnay). At the lowest level is generic Burgundy (the label simply says Bourgogne), which may come from any vineyard in

Burgundy. Next is a special category of generic wines entitled to use a regional appellation (for example, Côte de Nuits-Villages) on the label. Third, the category of Burgundy

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popularly referred to as village wine comes from vineyards located entirely within the boundaries of a group of favored villages (the label normally lists only the name of the village, e.g., Chambolle-Musigny). The grapes in a village wine can come from more than one vineyard, as long as all the vineyards are in the same village and entitled to the village classification.

First growths (premier crus) are specially designated vineyards with particularly good terroir. The name of the premier cru is added to the village name on the label (such as Chambolle-Musigny Amoureuses). Finally, at the top of the Burgundy pyramid are the grand crus, ideally situated hillside vineyards that over the centuries have consistently produced the region's greatest wines. These grand crus (e.g., Chambertin, Musigny) have become so well-known that their labels need not make reference to the villages in which they are located. In fact, in the 19th century several villages capitalized on the reputations of their most famous vineyards by appending the name of the grand cru to their own, which unfortunately can cloud the important distinction between a vineyard (Musigny) and the village in which it is located (Chambolle-Musigny).

Vintage variability. Burgundy is a coolish, marginal growing region for grapes. Whereas grapes in warmer areas reach reasonable levels of ripeness most years, vintage variation is much more of a factor in Burgundy. For starters, the early-budding pinot noir is particularly vulnerable to spring frosts. Highly localized summer hailstorms can decimate the crop of an entire vineyard in a matter of minutes. Cold weather in September can prevent proper ripening and result in tart, undernourished wines. Rain just before or during the harvest can swell the grapes with water or bring on rot, always a risk with the relatively thin-skinned, tight-clustered pinot noir grapes.

While underripeness has historically been the more common problem in Burgundy, uncharacteristically hot and dry years can produce excessively alcoholic and tannic wines with inadequate acidity or a cooked-fruit character. Some vintages produce such copious crop loads that unless growers take active steps to hold down yields, they are doomed to produce dilute wine. Unfortunately, with the high prices Burgundy fetches in today's marketplace, there is little financial incentive to limit production.

The human factor. A Burgundy's label will tell you the wine's vintage and appellation, but it won't tell you whether the grapes were ripe enough, whether the producer overproduced or cut corners during vinification, or whether the juice was worth the bottle. The Burgundy snob gravitates toward the most

famous grand cru vineyards and eschews wine from "lesser" sites, but the more liberated pinot lover knows that the producer's name on the label is easily as important as the wine's origin. There's no single wine called Vosne-Romanée Les Suchots: 20 or more growers and négociants (wine brokers who do not necessarily own vineyards) produce this first growth.

A small dose of history is necessary to explain the jigsaw puzzle that is the typical Burgundy cru. After the French Revolution, vineyards previously owned by the Church and the aristocracy were confiscated and auctioned off, mostly to wealthy speculators who in turn subdivided and resold them. The parceling of vineyards was accelerated by the French laws of inheritance established by the Napoleonic code, which ended primogeniture and required property to be equally divided among all heirs. The upshot is that today's typical vineyard has been divvied up among a gaggle of

owners. The most famous example—the 125-acre, walled grand cru Clos Vougeot, which at one point had remained intact for seven centuries—is now carved up among more than 70 owners.

The typical small grower may own tiny pieces of a half-dozen different vineyards, and make five or six barrels of wine from each that's a piddling 1,500-1,800 bottles of each wine, or 125-150 cases, for the world. Compare that to a Bordeaux first growth like Château Lafite-Rothschild, which releases 25,000-30,000 cases in a typical year, and you may well wonder why the most sought-after Burgundies are not even more expensive.

The effect of this segmentation on the consistency of the wine cannot be overstated. The fact is that if winemakers were required, like drivers, to be tested and licensed, a surprising number of Burgundy vignerons would still be working on their learn-

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ers' permits. Most maddening of all, wines from the same vineyard and vintage, whether classics or clunkers, sell for roughly the same price.

The variables that affect wine quality are virtually infinite: the age of the vines and the crop levels they produce; the ripeness of the grapes at harvest time; whether the grapes were destemmed; the temperature of fermentation and the length of time the fermenting must was left in contact with its skins; the number of months the wine was aged prior to bottling and the percentage of new oak barrels used; how, if at all, the wine was filtered—you get the picture. Unless you're prepared to consecrate your life to the study of Burgundy, you will never know the full story behind the label. Some winemakers, though, have established track records for excellence through greater and lesser vintages alike, and these are the names worth seeking out.

A recommended strategy for Burgundy novitiates. Once you've done some homework or found a wine merchant you can trust, you may be ready to spend $50-$100 for a grand cru or $25-$60 for a premier cru. Until then, village wine, at $18-$35 a bottle, is a more reasonable proposition. Village wines from Burgundy's most quality-conscious *domaines* can be as good as, or superior to, more hoity-toity labels from run-of-the-mill producers, not to mention better than any other pinot noirs from outside Burgundy.

There has never been a better time than now to experiment with village Burgundies. 1989, the current vintage in wine shops, was a very warm year that produced charming, fleshy, aromatic wines that can be enjoyed almost immediately and should last for several years. 1990, which will begin to arrive here next fall, is every bit as good. These are two of the ripest and most consistently successful vintages for red Burgundy in many years, and even less-favored vineyard sites got all the sun they needed.

In the accompanying box, I highlight five of the most renowned villages of the Côte de Nuits, the northern section of the Côte d'Or that produces much of the greatest red Burgundy and contains most of the region's grand crus. For each village listed, I have provided a brief description of its wines as conveyed by its best vineyards, followed by a short list of growers who regularly turn out superb examples of village-level wine–wines that offer the distinctive flavor and character of their village if not quite the intensity and finesse of its greatest terroir. (You'll notice that some legendary Burgundy names have been omitted: Domaine de la Romanée-Conti, for example, produces only grands crus, while the superb village wines of Domaine Leroy are, unfortunately, as costly as most growers' fanciest labels. The improbably rich wines of Henri Jayer are virtually unobtainable in the U.S.) It goes almost without saying that a producer with high standards for village wine will do especially well in his or her higher appellations, so once you've discovered a village and a style of winemaking you particularly like, don't hesitate to try the producer's more expensive bottlings.

(Correction: the vintage of the stunning Salon Le Mesnil Blanc de Blanc, praised in "The FYI Twenty: Outstanding Bubbly For The Holidays," should have been 1982.)

STEPHEN TANZER *is editor and publisher of* The New York Wine Cellar, *a 32-page bimonthly newsletter covering the world's fine wines. Annual subscription: $48. For more information, call 212-772-0454.*

Pinot Without Pain: Villages And Producers To Look For

Gevrey-Chambertin: Aromas and flavors of black cherry, plum, game, herbs and earth; firm, substantial, fairly tannic and potentially long-lived. Look for: Domaines Michel Esmonin, Bernard Maume, Joseph Roty, Christian Sérafin.

Morey St. Denis: Cherries, currants and spice (cinnamon and cloves), with suggestions of herbs, coffee, chocolate, truffle and earth; sturdily built. Try: Domaines Dujac, Hubert Lignier.

Chambolle-Musigny: Perfumed, often slightly musky, strawberry and raspberry; silky texture; intensely flavored but wines of finesse and subtlety rather than weight. Try: Domaines Barthod-Noëllat, Chopin-Groffier, Georges Roumier, Comte de Vogüé.

Vosne-Romanée: Floral raspberry and blackberry, with hints of minerals and spice; stylish and velvety. Try: Domaines Forey, Gros Frère et Soeur, Manière-Noirot, Méo-Camuzet, Georges Mugneret.

Nuits St. Georges: A mélange of red and black fruits (cherry, plum, raspberry, blackcurrant, blackberry); robust and structured, tannic and slow to evolve. Try: Domaines Bertrand Ambroise, Jean Chauvenet, Robert Chevillon, Chopin-Groffier, Méo-Camuzet, Daniel Rion.

Recommended reading: If 1,500 words on Burgundy have stimulated your thirst for more, how about 1,500 pages? *Burgundy*, by Robert M. Parker, Jr. (Simon & Schuster, 1990), describes the winemaking styles and recent wines of more than 600 of Burgundy's producers. *Making Sense of Burgundy*, by Matt Kramer (William Morrow & Company, 1990), focuses on the distinctions between the vineyards of the Côte d'Or and the producers worth seeking out.

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"The Tenth Part of what the land yields, whether grain crop or fruit from the trees, belongs to the Lord..." (Leviticus 27:30)

. . . . .

By Liam Callanan

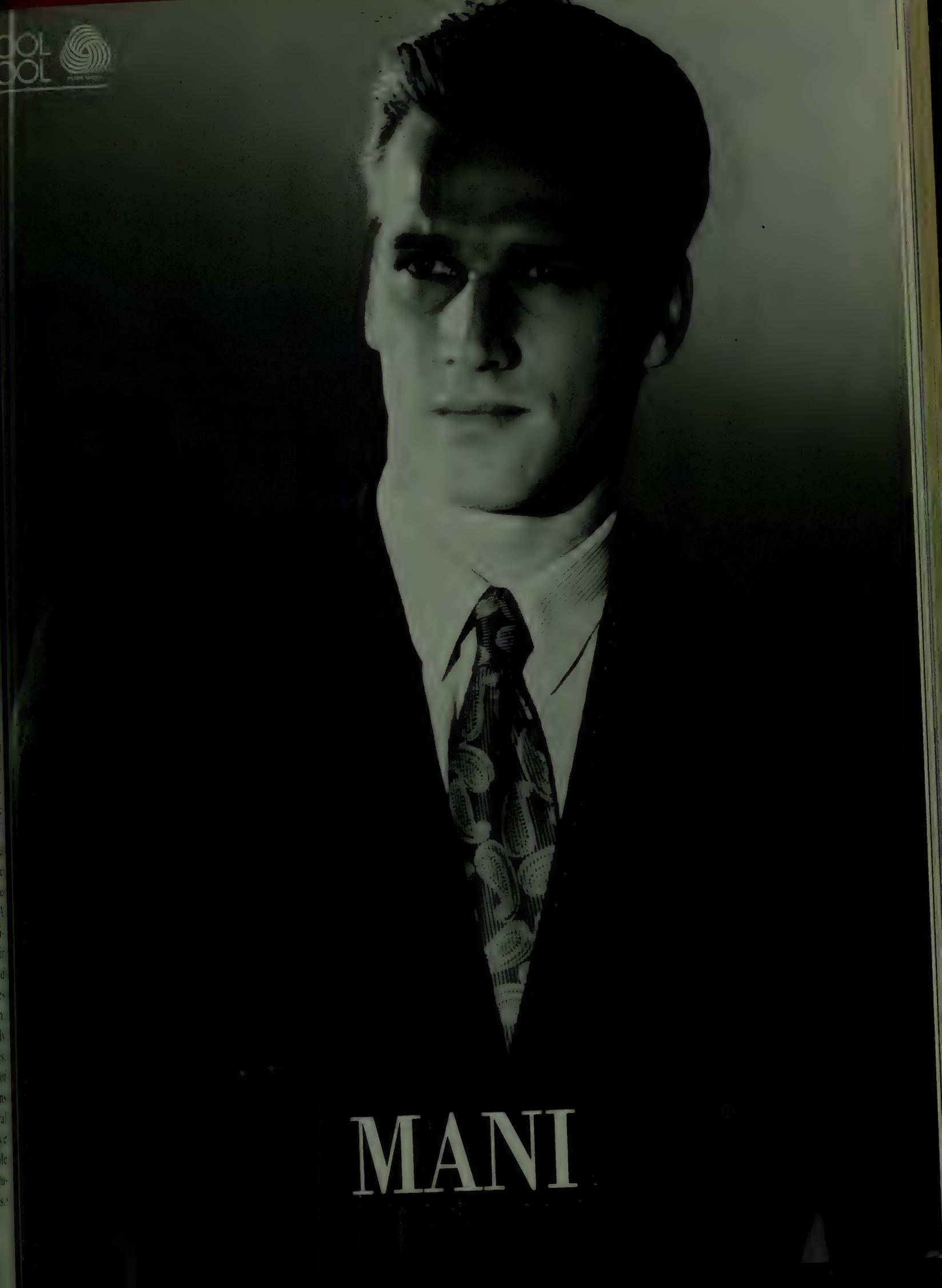
It's not the kind of statistic that leads off the evening news.

But maybe it should: in 1989, the end of the Gordon Gekko decade, Americans gave more money to charity—$114.7 billion—than ever before. That's a 10% jump over the previous year, and a 40% increase over the 1970s. No doubt about it, nonprofits are a blue-chip bet for your investment dollar.

Savvy investors have always sought out the small shops with the big promise. Few organizations typify that search as well as **Little League Baseball**, now in its 54th year. It may be damp and cold outside, but with spring training ahead, summer can't be far behind. Rest assured they're planning for it at Little League Baseball. And with 2.5 million future would-be pros worldwide, they've got their hands full down in Williamsport, Pa. Little Leaguers' salaries have a long way to go before they threaten the big Boys of Summer ("Didja bring the sodas, Mom?"), but someone has to pay for team travel, uniforms and fields. Your dollar helps these programs and more. **(Little League Baseball, Inc., P.O. Box 3485, Williamsport, PA 17701; 717-326-1921.)**

Baseball has its scouts, but until **The Giraffe Project**, unsung and innovative nonprofits fought a lonely fight. No more. For the past ten years, the Giraffe Project has publicized the valiant efforts of "giraffes," people in communities around the country (and recently, the world) who stick their necks out for the common good. The publicity not only boosts the giraffe and his or her project, but also inspires others to stick their own necks out. "We're hoping to create a critical mass," says John Graham, the current executive director. They are well on their way, he continues, with 630 giraffes "spotted" in the U.S., among them two men in rural Virginia who grew frustrated watching surplus potatoes go to waste. Efforts to collect the potatoes and distribute them to the poor have since involved over 15 million pounds of spuds. In Russia, The Giraffe Project has 70 candidates lined up. (Graham says business is booming at the Russian office, partly, he admits sheepishly, because "no one there has ever seen a press release.") Send your nomination or donation. **(Box 759, Langley, WA 98260; 206-221-7989.)**

John Hatch, the founder of the **Foundation For International Community Assistance** (FINCA), was recently spotted as a giraffe. Formerly involved in official U.S. international development programs, Hatch became disenchanted with projects that fizzled as soon as the money dried up. In response, he set up FINCA, a micro-enterprise lender to the "poorest of the poor." Primarily based in Latin America (largely because air travel anywhere further would cut into the Foundation's assets), FINCA recruits locals to own and run individual banks. They establish their own officers and even bylaws, and with seed money and guidelines from FINCA, begin operation. Loans start at $50, and are usually made to foster small local businesses. The debtor is required to put 20% of what he (but usually she) then earns in a savings account. (After several years' experience, women have proven to be the most responsible risks, and thus are now almost exclusively targeted in FINCA's efforts.)



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At most of FINCA's banks, the default rate is less than 4%. In some, it's 0%. All of FINCA's resources come from private donations. **(901 King Street, Suite 400, Alexandria, VA 22314; 703-836-5516.)**

A similar and no less personal drive led Clementine Barfield to found **Save Our Sons And Daughters** (S.O.S.A.D.), an innovative support group that works with the survivors of homicide victims. Whereas John Hatch turned to solving problems overseas, Mrs. Barfield started right in her own Detroit neighborhood after her two teenage sons were shot near their school. After one of them died, Mrs. Barfield reached out to her neighbors for support. S.O.S.A.D. grew out of this experience, and today provides a down-to-earth, common-sense and comprehensive counseling service to survivors of homicide victims. Members of the community help families with funeral arrangements, food or clothing, and, servicing an often neglected need, accompany the family to court in order to provide support and explain the terminology and procedures of a murder trial. In addition, S.O.S.A.D. attacks the problem from the preventative side, operating conflict resolution and mentoring programs, support groups and a speakers bureau. It's a hands-on approach that has gotten concrete results in Detroit, and calls from around the country, from places "which think they are exempt from the violence and are not," explains a S.O.S.A.D. spokesperson. **(Machinists Building, 2441 West Grand Blvd., Detroit, MI 48202; 313-361-5200.)**

Peggy Barrett of Manheim, Pa., takes a similar no-nonsense and no-holds-barred approach to dealing with violence. Her reach, however, extends across the Atlantic to Northern Ireland. Since 1987, her **Children's Friendship Project For Northern Ireland** has brought almost 600 children over from Belfast to spend a summer in the States.

Though there are a number of programs like Peggy's, she says hers is the only one that does it by twos: each host home welcomes two children, one Catholic and one Protestant. And says Peggy, with a brogue thick enough to reveal her stake in all this, "they have to stay friends." If they do, they get to come back. She says they have a "fantastic" success rate, which she judges partly by the attendance at the annual reunion party in Belfast. Last year, 350 Belfast "alumni" and their families attended, as well as almost 20 Americans who traveled all the way to Northern Ireland to see their former guests and fast friends. The party is just a small example of Peggy's claim: "We're doing what no person has done for 250 years—we're bringing people together." And Peggy is always looking for host families as well as donations. **(C.F.P.N.I., 1538 N. Penryn Rd., Manheim, PA 17545; 717-665-6559.)**

If Peggy's efforts succeed beyond her wildest dreams, Northern Ireland will be one less worry of **No Greater Love**. Now in its 20th year, No Greater Love's mission is twofold: remembering those who are held hostage or have lost their lives in war or conflict, and helping the families left behind. The organization sponsors annual vigils for a variety of groups, including journalists killed covering wars or conflicts, victims of terrorism, and servicemen and -women who died in war. While the vigils show families their cause has not been forgotten, No Greater Love knows personal attention makes a better salve: grieving children receive cards or gifts at Christmas, invitations to holiday parties with sports teams and celebrities, and, when needed, solace and assistance. **(1750 New York Avenue, NW, Washington, DC 20006; 202-783-4665.)**

LIAM CALLANAN *is a free-lance writer living in Arlington, Va.*

They travel cross country and across the Pacific marketing his wines to fine restaurants and retailers. Can often be found at gallery exhibitions, seeking just the right painting to feature on his next wine label. Tap to the sounds of jazz for relaxation and rejuvenation. And are frequently seen in the company of his eldest daughter and business associate, Kara, who has followed his footsteps into the business.

The Thatcher from Bostonian. As worn by Robert Pecota, winemaker, jazz aficionado, proud father, and proprietor of Robert Pecota Winery, Calistoga, California.

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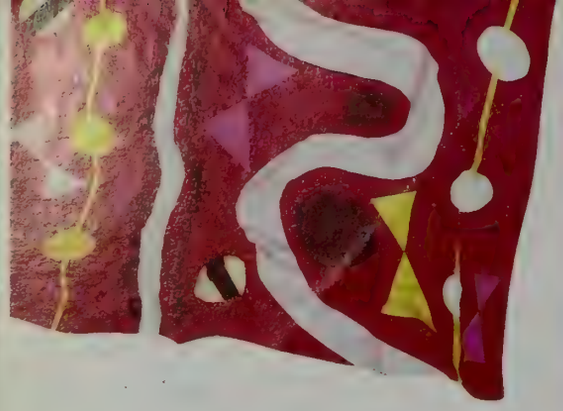
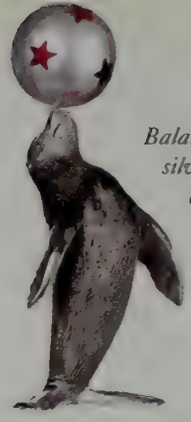


Circus shapes and party favors spill across a silk scarf by Gene Meyer. $80. At Bergdorf Goodman, NY, and select Nordstrom and Saks Fifth Avenue stores.



Balancing act: a sterling silver seal juggling an enameled ball, $625, is just part of Gene Moore's exclusive circus collection at Tiffany & Co. 800-526-0649.

Gilt Trip

Circus Maximus

Send in the clowns, the circus is in town! This spring, there's a three-ring extravaganza of handbags, scarves, and other accessories inspired by the Big Top. And why not see the real thing—they don't call it *The Greatest Show On Earth* for nothing!

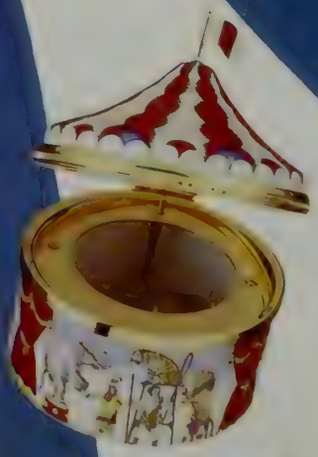
• • • • •

By Mark Grischke

Espress *yourself in circus motifs with the Rosenthal Artist Collector espresso cup designed by Portanier. $98. At Marel, Great Neck, NY; Tesoro, Los Angeles; and J. E. Caldwell, Philadelphia.*

A zebra pin by Gerard Yosca, in enamel, gold and Austrian crystal. $125. At Francesca Gerard, NY; Saks Fifth Avenue and Neiman-Marcus.

Pack your trunk—a shapely suede handbag with a circus elephant appliqué. At the Isabel Canovas boutique, New York, 212-517-2720.



This gold-and-enamel music box plays "Entry Of The Gladiators," the famous circus tune. $760. The Horchow Collection, 800-456-7000.

This month, the Ringling Brothers and Barnum & Bailey Circus tours New York, North Carolina, Tennessee, Kentucky and Ohio. For clowning around, this pillow is $15 at Circus stores (All into 703-442-4000).

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The Bulletin Board

Global warming linked to dinosaur flatulence

LOS ANGELES (AP) — Dinosaur flatulence may have helped warm Earth's prehistoric climate, say scientists who studied the giant reptiles' fossilized dung.

Bible Translation Approved

They approved a new translation of the Bible for use at children's Masses in which Noah builds a "big boat" rather than an ark and swords are pounded into "garden tools" rather than plowshares. But the bishops balked at changing the text of the Gospel to read that Mary laid Jesus "in a feed box."

Death No Handicap for Golfers

THE ASSOCIATED PRESS

Winter Haven, Fla.– Officials at a golf course covered Donald DeGreve's body with a sheet right where he died, on the 16th green. And the body stayed there two hours, while friends and neighbors played through.

Police Say Man Hit His Wife With Frozen Squirrel

Associated Press

Sacramento

A 26-year-old man was arrested early yesterday for hitting his wife with a frozen squirrel, police said.

Police spokeswoman Betsy Braziel said Kao Khae Saephan had been arguing with his wife about 2:30 a.m., when he walked into the kitchen and took several frozen squirrels from the freezer.

Man said to make 30,000 abuse calls

GREENWICH, Conn. – A computer analyst has been accused of making 30,000 obscene telephone calls in which he tried to get women to stand naked outside their homes, police said.

Asked if he planned to "stay put" and curtail foreign travel during the campaign year, he snapped, "No, you're not going to see me stay put. I am not going to forsake my responsibilities. [But] you may not see me put as much — I mean, un-put as much."

In Idaho during the 1988 campaign, Mr. Bush enthusiastically described his relationship with President Reagan: "For seven and a half years I have worked alongside him, and I am proud to be his partner. We have had triumphs, we have made mistakes, we have had sex."

After a stunned moment, he hastily corrected himself. "We have had setbacks."

Last summer Little, Brown issued a new printing of a perennial children's favorite, "Captain Kidd's Cat" by Robert Lawson, only to discover after 1,500 books had been shipped that for the opening pages, the printer had substituted material from "Closer," by Dennis Cooper, a work of gay erotica.

U.S. Says Va. Fertility Doctor May Have Fathered 70 or More

Egypt's Ballooning Condom Demand

U.S. Agency Halts Delivery After Reports of Use as Toys

A huge multilingual welcome banner outside the San Jose Public Library came down Wednesday after it was discovered that the Philippine greeting actually meant "circumcision," not "welcome."

■ BERKELEY, Calif.—City officials tossed Christopher Columbus overboard by declaring Oct. 12 "Indigenous Peoples Day," stripping the explorer of his honored day in this politically correct city.

The city also declared 1992, 500th anniversary of Columbus's landing in America, "The Year of Indigenous People."

Ten die in crush

RABAT, Morocco. — Ten people were crushed to death and seven hurt when about 2 000 families packed into a mausoleum to watch the circumcision of their sons.— Sapa-Reuter

Corr

A sentence in a Nov. 21 letter on Africa by P. P. Lakshman appeared incorrectly because of the typographical error of "not" for "now." The sentence should have read: "It is ironic that Africans, who were the victims of colonialism and slavery by former European despots, are now seen as perpetrators of despotism."

0-pound Milwaukee woman who fatally crushed her husband when she sat on him may have been the victim of abuse and might not be charged, authorities said. Charles Walker, 40, died Tuesday 11 days after his wife, whom police did not name, sat on him during a quarrel. Walker never regained consciousness.

From news services

▶ **WEIGHTY REPRIEVE:** Gary Ring, 34, was freed on bond rather than confined at home on a drug offense because authorities in Charles Town, W.Va., couldn't find an electronic monitoring device big enough to go around the leg of the 670-pound defendant, officials said.

***

Justifiable Blues

A New Hampshire district court, deciding a worker compensation claim, ruled recently that a man's long bout with depression was caused by job stress. His former employer, trying to show the cause was personal problems, pointed out that the man had endured the following over the previous 13 years: three divorces, two auto accidents that resulted in chronic back pain and ruptured vertebral discs, asthmatic bronchitis and allergies, arthritis, hypertension, headaches, facial swelling, obesity, nosebleeds, dermatitis, breast enlargement and a sexual dysfunction.

***

MAN SHOOTS HIS MOM — THOUGHT SHE WAS A DEER

Tragedy in Westchester: Page 7

Asthma sufferer's almost-fatal error

KEY WEST, Fla. — Vicki Childress has asthma, and she keeps her asthma spray under her pillow. Next to a loaded gun.

She had an asthma attack in bed Monday night.

Yesterday, she was in fair condition at the Lower Florida Keys Health System after shooting herself in the jaw.

A half-asleep Childress, 38, reached for her atomizer about 11:45 p.m. Monday. Instead, she pulled the trigger of her .38-caliber revolver.

Knight-Ridder Newspapers

It never says, "Cheap, cheap."

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Forbes
FYI

The ATTACK VIDEO

Through American History

WELL FOLKS, THE SILLY SEASON IS UPON US once again, and soon we'll be hearing from the usual suspects about the deplorable negativism that has infected American political discourse. Oh, they say, wringing their hands wetly, *where* is the discussion of the issues? *Why* aren't people talking about the infrastructure, health care, campaign reform? Why, they keen, is it all nasty, 30-second character assassinations by the candidates' paid video henchmen? Ho hum, we say. Spend 30 minutes perusing the tawdry record of American politicking, and you'll come away convinced that until recent times campaigning has never attained such peaks of politesse, Willie Horton, lesbian jokes and mafioso innuendoes to the contrary.

In the spirit of a reality check, *FYI* unproudly presents four campaign commercials as they surely would have appeared had someone had the bad taste to invent the vacuum tube in time for the Jefferson-Adams mudbath of 1800.

ILLUSTRATIONS BY ROY PENDLETON

JEFFERSON VS. ADAMS, 1800

Voice-Over: *The pride of the United States Navy. Manned by courageous American sailors. Paid for with the sweat of American yeomen.*

V.O.: *Her mission: to keep the sea lanes safe for American commerce.*

V.O.: *President John Adams, it transpireth, has found other uses for our fleet. Did ye know that he personally dispatched his running mate, General Pinckney, on a U.S. man o' war to England, whereat to procure four strumpets? Two for the President. Two for General Pinckney.*

Soundtrack (strumpet's voice): *"Mr. President! Prithee!"*
V.O.: *Bunker Hill, Concord, Lexington, Saratoga, Valley Forge...Was it for this?*

FADE TO:

PAID FOR BY REPUBLICANS FOR

Th Jefferson

Like "Old Prudence." It's good, but let's emphasize The Secret Plan" to get the boys home. How about "Peace With Honor"? Let's discuss.

McClellan vs. Lincoln, 1864

Voice-Over: September 1862. After winning the North's most glorious and decisive victory over the rebels, General George "Old Prudence" McClellan, hero, patriot and twice savior of the capital, is fired by a meddling lawyer-politician.

V.O.: Under the command of a former clerk with a fondness for spirits, the Army of the Potomac is bogged down bloodily in the swamps of Virginia...

V.O.: ...while their commander in chief dithers over whether to grow whiskers, issues self-serving proclamations and dishonors fallen heroes with 2-minute speeches hastily scribbled on the back of envelopes.

V.O.: Isn't it about time we had a man with a plan? George McClellan. Leader.

FADE TO:

PAID FOR BY THE FRIENDS OF OLD PRUDENCE

Blaine vs. Cleveland, 1884

Voice Over: What are the voices of America's free press saying about Grover Cleveland?

"Rake!"

"LIBERTINE!"

"Father of a Bastard!"

"A Gross and Licentious Man!"

"A Man Stained with Disgusting Infamy!"

(Director's note: fade in quotes one by one)

"Ma! Ma! Where's My Pa?"

V.O.: What is Maria Halpin's son saying about Grover Cleveland?

(Director's note: fade in quote)

"Mr. President"

V.O.: What must we pray the American people never call Grover Cleveland?
(Director's note: fade in quote)

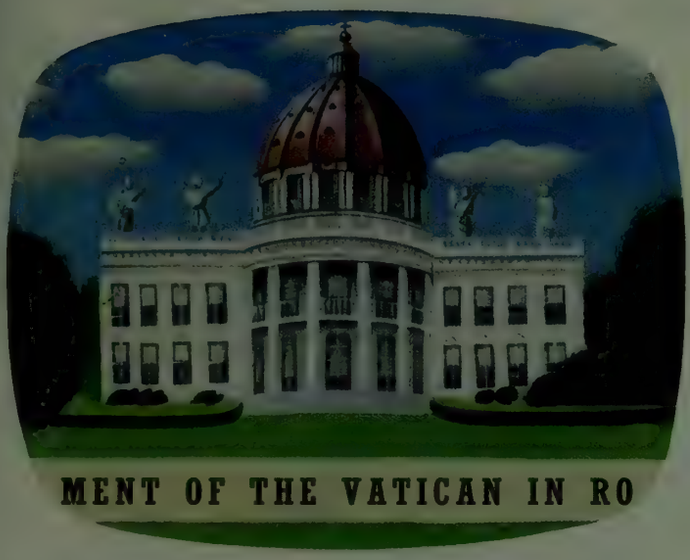
FADE TO:

PAID FOR BY REPUBLICANS FOR DECENCY IN HIGH PLACES.

Hoover vs. Smith, 1928

Tickertape: March 4, 1929, Al Smith takes office as President of the United States.

Tickertape: March 5, President Smith, in his first executive order, officially annuls all Protestant marriages and declares all their children bastards.



Tickertape: March 6, President Smith, in his second executive order, announces that the newly completed Holland Tunnel will be extended under the Atlantic to the basement of the Vatican in Rome.

Tickertape: December 8, 1931. Pope Pius XI arrives at the White House via the just completed Holland Tunnel. President Smith welcomes the Roman pontiff. On his knees.

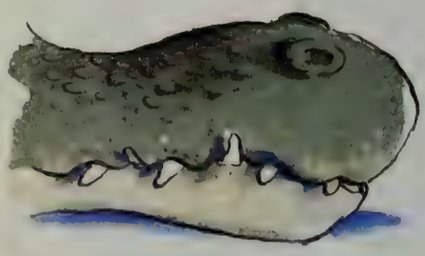
FADE TO:

PAID FOR BY THE COMMITTEE FOR THE PRESERVATION OF THE SEPARATION OF CHURCH AND STATE.

Dad's Survival Guide To Disney World

By Alex Beam

Illustrations By
Michael Witte



The joy of managing is delegating. The Human Resources Department handles the workers, Investor Relations fends off the piranhas, and of course your secretary can always tackle the most ticklish chores, like finding a 20th-anniversary present to match the dress she bought for your wife's birthday earlier in the year.

But here is one task you can't delegate. Every parent, no matter how grand or humble, commoner or king, must accompany his or her children to Walt Disney World. Worse yet, your wife—mindful of how little time you have to select important anniversary presents—may decide not to come, to allow you to "get closer" to your kids. Hell, you could have hired someone to die in the Civil War for you, but this time you're on your own, alone and buck naked in the kingdom of the Four-Fingered Mouse.

Kids love Disney World, but then kids love a lot of strange things, like pulling the wings off flies and John Candy movies. But what about you? How will you react when the flight attendants pass out cardboard Mickey Mouse ears somewhere over Charleston, S.C., and tot-induced turbulence causes the plane to buck and juke around the sky? Have you heard about the vultures circling over the Contemporary Resort? Have you ever seen robotic topiary? An AudioAnimatronic George Bush? Are you prepared?

This is the *Forbes FYI* Survival Guide to Disney World—children's paradise, parent's hell. Short of emigrating to one of the ever-dwindling number of nations lacking a Disney theme park, reading this article is your last, best chance to preserve your sanity in the world capital of kiddie kitsch.

As your son or daughter drags you, dog-like, from Disney line to Disney line, remember, there is one consolation: they're only young once.

ALEX BEAM *is a columnist for* The Boston Globe.

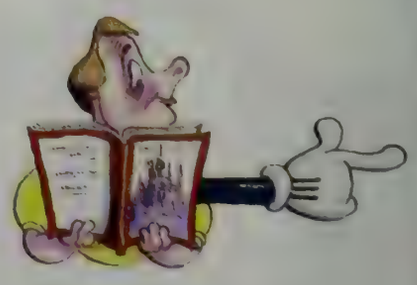
A Guide To The Guides

****Birnbaum's Walt Disney World* (Avon, $10.95): The "official" guide. Exhaustively accurate—yes, 500 gallons of paint on Cinderella's Castle—and helpful.**

****The Unofficial Guide To Walt Disney World And EPCOT*, by Bob Sehlinger (Prentice Hall, $9.95): This is the Stakhanovite's road map to Disney World. Sehlinger has the reader racing around the park to squeeze in the maximum number of rides—but, hey, didn't we come here to have fun? Probably the best guide for budget-minded visitors.**

****Fodor's Disney World & The Orlando Area* (Fodor's, $8.95): The wogs' guide to Disney Raj. Unbearably high-minded, this is the only book silly enough to suggest visiting Orlando. Here, for instance, is what awaits you at King Henry's Feast, a Tudor-era restaurant next to the Econolodge on International Drive: "Saucy wenches, who refer to customers as 'me lords' and 'me ladies,' serve potato leek soup, salad, chicken and ribs"—AAARRGH!!! Off with their heads!**

***Disney publishes brochures for each section of The World: the Magic Kingdom, EPCOT, Disney-MGM Studios, Typhoon Lagoon, etc. They are thorough, up-to-date, easy to read and convenient to carry. And they are free.**



You Want Utopia? Get in Line.

It is no coincidence, as the Marxists like to say, that amusement parks designed by Walt Disney, the son of a Canadian-born socialist, so resemble certain institutions in the late, unlamented USSR.

Notice, for example, the similarities between the lines at Disney World and the line outside Gastronom Number 1 on Moscow's Gorky Street:

1. Everyone in line arrives via heavily subsidized public transportation. (Monorail, Moscow Metro)
2. In Moscow, red-armbanded vigilantes patrol the line for signs of disorder. At Disney World, red-uniformed "cast members" perform this function.
3. Cryogenically preserved founders of the Experimental Prototype Communities Of Tomorrow (Walt Disney, Vladimir Lenin) lie not far away. (For the record, the Walt Disney Co., denies the persistent rumor that Walt, like other Southern Californian eminentoes, put his remains on ice. "He's buried in Forest Lawn," a spokeswoman insists.)
4. Everyone in line hates Communism and is exulting in its apparent demise.

How the lines at Disney World are different from the lines outside Gastronom Number 1:

1. The Gastronom sells caviar and vodka, not available in the Magic Kingdom.
2. The Americans can pay in "Disney Dollars," a convertible currency. Gorby's Goofy geld isn't welcome anywhere.
3. In Moscow, war veterans, People's Deputies and KGB agents can cut in at the head of the line. At Disney World, all of Mickey's comrades are equal.

BYOB

There's not much adult entertainment in the Magic Kingdom. A few kiosks sell beachy books, e.g. Eric Lustbader's classic *White Ninja*, but if it's mature Disneyana you want, you'll have to wait until you clear Orlando customs, on the way out. Here are excerpts from five books most definitely not for sale at Disney World:

The Propheteers, a novel by Max Apple:[Walt's brother] *Will wanted tits on Pearl Mouse. 'Mice don't have tits,' Walt said laconically and refused to draw even the tiniest bulge on his standing matronly mouse...*[Will] *saw it otherwise... If you put tits on girl mice, then Mickey could walk up and squeeze one and everyone would get a kick out of that.*

Storming The Magic Kingdom, by John Taylor: *The feuding* [between Walt and his brother Roy] *lasted almost a decade, during which time the relationship between the brothers became so poisoned that they refused to speak to each other...Roy Disney, who shared some of his brother's talent for story-telling, liked to describe how, when he and Walt were growing up in Kansas City, they shared a bed which his younger brother frequently wet. 'He'd pee all over me,' Roy would say, 'and he's still doing it.' Walt told the same story. 'I pissed on him then,' he'd say, 'and I'm pissing on him now.'*

Native Tongue, a novel by Carl Hiaasen: *...the prospect of a major theme park to compete with Disney World carried an orgasmic musk to local chambers of commerce... The Mouse's sprawling self-contained empire sucked tourists' pockets inside out; they came, they spent until there was nothing left to spend; then they went home* happy... *Astounding!*

Holidays In Hell, by P.J. O'Rourke: *Five big American corporations sponsor pavilions in the 'Future World' half of Epcot Center... Every ride seems to begin with cavemen and end in a video game where a recorded voice asks you to face the challenges of tomorrow. I thought that's what we're paying these corporations to do.*

La Guerre Du Faux, by Umberto Eco: [The world of Disney] *is a place of total passivity. Visitors agree to live like robots. Access to each attraction is controlled by moving hand rails and labyrinthine barriers of metal tubes that discourage all individual initiative...The bureaucrats of the dream, each properly dressed in a uniform adapted to the attraction, dictate the visitors' every step: 'Now wait here, now step up, sit down, wait before leaving your seat,' in a tone that is always courteous, impersonal and imperious...*

De Gustibus: The Worst Of The Wurst

How bad is the food? Fodor's says it best: "Visitors who care about real food will discover that gourmet dining is as much a fantasy as everything else in the Magic Kingdom." Pizza for breakfast, smoked pork loin for lunch, french-fried ice cream for dessert (really); bon appétit!

Sample fare:

THE PUPPETEER TURKEY CHEESEBURGER, slathered with "house" BBQ sauce at the Pinocchio Village Haus. Easy for him to eat; *his* stomach's made of wood.

PECOS BILL'S GOURMET CHEESEBURGER BASKET at the Pecos Bill Café. Culinary homage to *Blazing Saddles.*

THE SHOGUN COMBINATION—Chicken and beef with teriyaki sauce—at the Yakitori House. Stomach upset? Cut it out.

THE PRIME TIME CAFE'S MOUSEKETEER SANDWICH: Peanut butter, jelly and marshmallow creme, with fresh fruit on the side. Annette! I think I'm going to...

LIBERTY TREE TAVERN'S MONTE CRISTO SANDWICH: Batter-dipped, deep-fried turkey, ham and Swiss cheese. Dumasn't eat it.

P.S. You can go a long way without wetting your whistle in Disney World. The Mile Long Bar in Frontierland is a mirage; no alcohol is served in the Magic Kingdom, though some hotels have Minniebars, and liquor is available in the restaurants. If you've got the itch, run over to EPCOT's 11-nation World Showcase, the Model U.N. of booze. They serve aquavit, tequila, sake and much, much more.

P.P.S. The only Pepto-Bismol for sale in the Magic Kingdom sits on a concealed shelf at ankle level behind the stuffed animals in the Main Street Emporium. Why ask why?

KIDS ASK THE DARNEDEST QUESTIONS!

Typical questions you can expect to field at Disney World, along with the officially approved answers:

Q. Are Minnie and Mickey married?
A. "They are boyfriend and girlfriend," says Disney spokeswoman Sarona Soughers of the longest courtship in cartoon history. "Just like Donald and Daisy."

Q. Why did they close the beaches today?
A. In the hot Florida climate, bacteria form in the Seven Seas Lagoon and Bay Lake, explains Disney environmental-czar Kym Murphy. The protozoan amoeba that grows, says Murphy, "is like a herpes virus; everybody has it, it just doesn't manifest itself."

Q. (After seeing the 3-D short feature *Captain EO*) Is Michael Jackson black?
A. Sort of.

Q. Why are those vultures circling above the Contemporary Resort hotel?
A. Turkey vultures are indigenous to the area, Murphy explains. By using "non-invasive pyrotechnics" (Disneyspeak for cherry bombs), Murphy has managed to reduce the vulture numbers somewhat. A few years ago, 600-700 of them squatted in the pathways at Discovery Island, Disney World's nature preserve. "It wasn't the kind of place you wanted to take your three-year-old for a walk," Murphy admits.

Q. (After seeing the 3-D short feature *Captain EO*) Is Michael Jackson a man?
A. Sort of.

Q. Any alligators here?
A. No worries, mate. Although *The New York Times* recently ran an article on gator infestations in Central Florida, specifically mentioning Disney World, enviro-czar Murphy, speaking from his car phone 3,000 miles away in Central Los Angeles, downplays the gator problem. He did, however, admit that a gator once devoured his ball, a Titleist, on a Disney golf course.

Q. What's the Disney movie *Pretty Woman* about?
A. It's about two people who are very much in love, just like Mommy and Daddy.

The Bottom Line

Disney World is deservedly famous for its lines. The kids remember pressing the paw with Pluto, and the grown-ups remember queuing up for 20 minutes to get inside a shed that housed...another 20-minute-long line. The only places that don't have lines are—surprise!—the stores. Feel like buying a $3.99 Donald Duck thimble? No? Then get in line.

Helpful Tips I: The Worst Line-To-Thrill Ratios At Disney World

Skyway To Tomorrowland—The line snakes up a fake mountain and stops frequently while lederhosen-clad flunkies grapple with the cable cars. All paths lead to the grave, but this ride is worse: it leads to Tomorrowland, which, as Disney boss Michael Eisner said in 1985, "was looking a bit like Yesterdayland."

Snow White's Adventures—By the time you reach the front of this one you'll be reaching for the poisoned apple.

Body Wars—A.k.a. the Vomit Comet. Did you miss Raquel Welch in *Fantastic Voyage*, the hep movie of 1966? Then this dopey ride is for you.

Star Tours—"Body Wars" in space, but the line wraps around planet Earth.

The Maelstrom ride, in EPCOT's Norway Showcase—Bring a Knut Hamsun novel to read in this endless line. The ride is a sloshy tour of Norway's North Sea oil platforms. *Skol!*

Helpful Tips II: Take a Ride On The Short Line; Cheap Thrills, No Waiting

Eastman Kodak's three-dimensional Magic Journeys show—Kodak's conscience balm for price-gouging on film. Excellent.

It's A Small World—Puppets chirp the Desert Storm theme song. Little kids like it, and you'll get nostalgic for the 1964 World's Fair.

Peter Pan's Flight—A theme park innovation when built, it suspends passengers from overhead tracks. Beats the fares on British Airways.

Mickey's Starland—See Mickey's bachelor pad and the 50th birthday card from Ronald Reagan. Clean, cute and chaste; plenty of cheese in the fridge and none of Minnie's polka dot dresses cluttering up the closets.

Sunday Mass at the Polynesian resort hotel's Luau Cove—Come to think of it, there is a line...

All You Need to Know About Disney World in Ten Easy Lessons:

1. Take your children out of school and visit between Labor Day and Thanksgiving. It's illegal in most states, but get a load of these attendance numbers: up to 70,000 a day per park during school vacation weeks, 20,000 a day from mid-September until mid-November. Tell the principal you're off fossil-hunting in Montana.

2. Forget about Orlando, Dixie's Double Dubuque. The airport has long runways, marble flooring and shuttle buses leaving for Disney World every 20 minutes. Board the first one you see, and don't look back.

3. Stay in Disney World. The Disney hotels are expensive, but they're near the action. The impact of Mickey Mouse toiletries (soap, shampoo, toilet paper) on young children is not to be underestimated.

4. Go for at least four full days, preferably Thursday through Sunday. Reason: exchange-rate-exploiting Eurotrash flies in on the weekends and hits the parks in the beginning of the week.

5. Plan your visit in advance. Buy a travel guide several weeks before departing and reserve seats for live entertainment shows and for "character breakfasts" with Mickey, Goofy etc. In-room babysitting should be booked in advance, as should any Disney meal worth eating, for instance, at the nationality restaurants in EPCOT.

6. Pack as if you were traveling to Kuwait. The Disney stores sell souvenirs, sundries and little else.

7. Arrive at the theme parks early and proceed directly to the attraction farthest from the entrance. By visiting the park "backwards," you will encounter fewer lines.

8. When a line divides, always move to your left. Most people instinctively go to their right.

9. The parks are less crowded and more pleasant to visit in the evenings, but check each day's schedule for closing times, which vary.

10. Never stand downwind from a Disney fireworks display.

That Mouse Stole My Wallet!

or

The Magic Kingdom on $950 a Day

Family of Four, Day One:

8:45 p.m.: Arrive Orlando International Airport	
One-way air fares (x4, prorated):	$305.00
8:58 p.m.: Shuttle to hotel	25.00
9:32 p.m.: Hotel Check-in	
Two double rooms:	390.00
Extortionate sales tax:	23.40
Super-extortionate "resort tax":	15.60
10:00 p.m.—7:00 a.m.:	
Sleep	(Free)
7:30 a.m.: Breakfast	28.05
9:17 a.m.: Four-day passes (x4, prorated)	
to the Magic Kingdom	105.00
12:03 p.m.: Fast-food lunch	
at the Pinocchio Village Haus	20.90
6:16 p.m.: Supper	35.88
Time elapsed:	**21 hours, 31 minutes**
Total expenditures:	**$948.83**
Burn rate per waking hour:	**$75.90**

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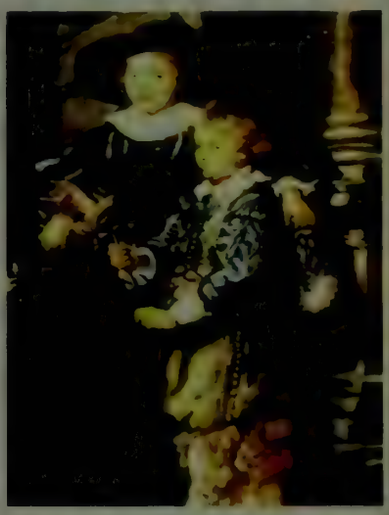

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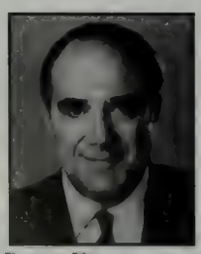

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"Much useful advice from a pro." – *Forbes*

A *Cicerone* OF *One's Own*

By Neal Santelmann

The Practical Pleasures of a Personal Tour Guide.

Instead of spending those first few hours of your next vacation wedged in a tour bus with 38 other rubberneckers, or winging the sightseeing yourself and getting the least out of all the interesting sights, indulge yourself with a private tour guide.

Sounds exclusive? It is. But the benefits can outweigh the costs. "Most tour lines operate by rote, but a personal guide can tailor a tour to suit *your* needs," says Edwin Farrell, head of the Professional Guides Association of America. "You can say, 'Boy, we'd like to see *this* now,' and just go."

Louis Polster, a commercial food equipment inventor from Burbank, Calif., is a convert. He recently treated himself to a private four-hour tour—at $25 an hour—through the marble monuments and edifices of Washington with D.C. guide Deborah Androus. "Walking along together we were able to talk about things in a much more intense way," he says. "A lot more knowledge was imparted and it was a lot more fun. And *I* got to pick the time."

Personal guiding is nothing new. Well-heeled 18th-century Europeans would seek out the local *cicerone* (from the Roman orator Cicero) upon reaching a new city to show them the sights, act as interpreters and share their knowledge. Here in the States, though, says Farrel, only in the last five years or so have guides been branching out, with vacationers discovering personal service.

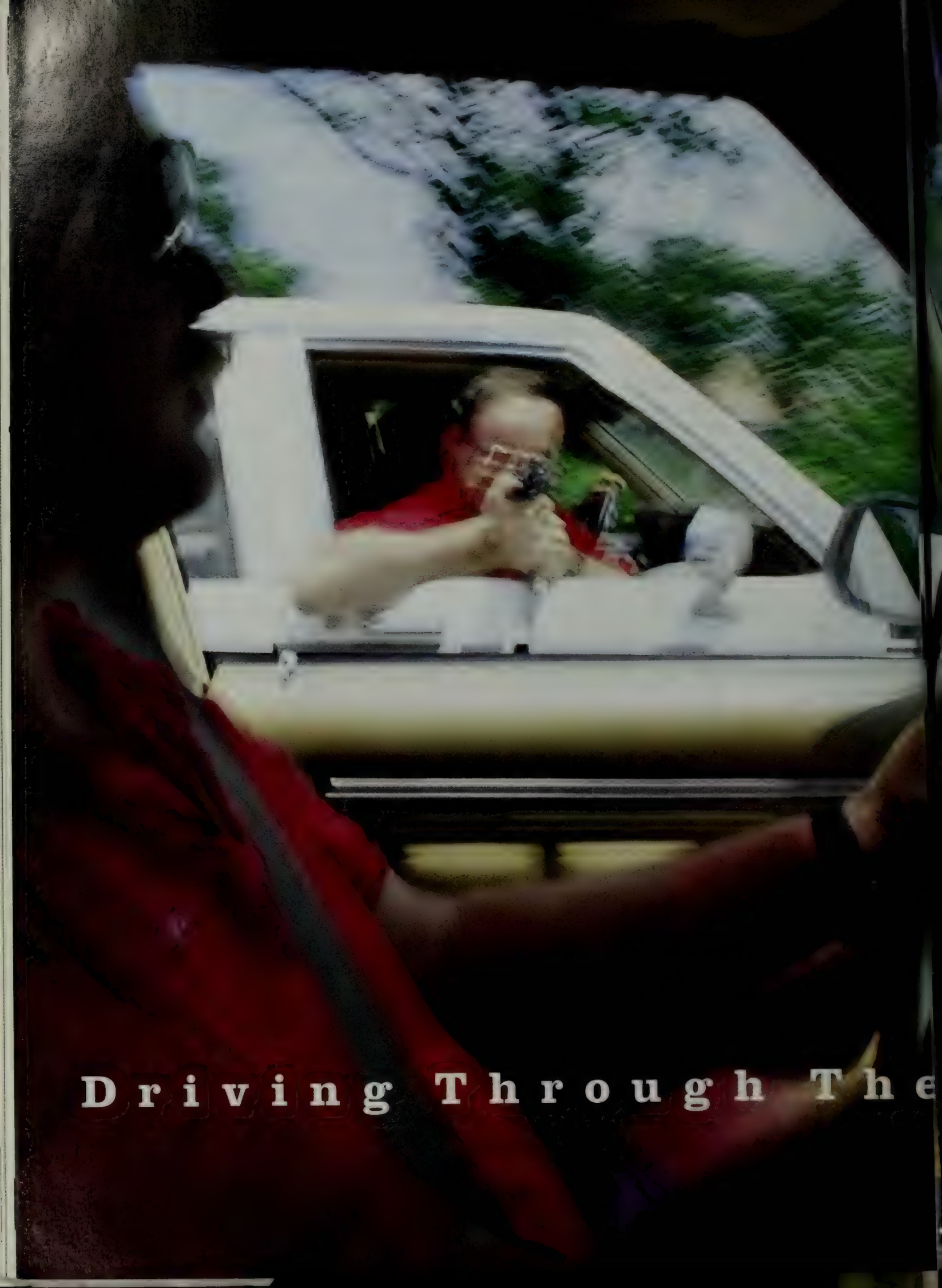
Most independent guides (there are around 3,500 in the U.S.) will just as happily dish up the minutiae of local culture for families and small groups as for the tourist busloads, though such service is usually a small percentage of their business. Prices aren't that intimidating: $20 to $35 an hour in urban areas, $10 to $25 elsewhere (exclusive of transportation and admissions), regardless of the size of your group.

The real advantages are the time saved and the opportunities not missed. A small group might pick up an extra hour-and-a-half over a day of touring and may, on short notice, access areas where busloads wouldn't stand a chance. On the spur of the moment, Androus has gotten small groups in to see the honor guards' quarters at Arlington National Cemetery or for a quick peek at the catafalque in the Capitol. "A staffer might take three people in to meet a Senator for five minutes; 40 people would take that long just to get through the door."

Guides say it works best to leave the agenda loose. That adds a touch of spontaneity and guarantees you won't start yawning. If Santa Fe guide Don Dietz finds that his clients like architecture, he'll take them to a house under construction that exemplifies the Santa Fe style. Or if their ears perk up at mentions of geology, he'll suggest a dash to an extinct volcano in the Jemez Mountains. "It's almost like we're discovering things together."

Since many vacationers use tours simply to orient themselves to an area, the personal guide is an excellent source at the end of the day for advice on how to spend the rest of your vacation. And a personal tour is a good way to entertain visiting parents or fidgety kids for the day. But bear in mind: they're not babysitters.

How to find them? A concierge can be a good source. Or contact the Professional Guides Association, which keeps resumes and references on all of its 1,000 members (703-892-5757).


Driving Through The

APOCALYPSE

Welcome to anti-terrorist driver's ed.

Where you will *learn to execute a proper bootleg turn, spot and avoid an ambush, successfully conclude a high-speed chase, correctly ram a hostile vehicle and a few other skills designed to keep you alive on the world's meanest streets.*

By Christopher Buckley

Photographs by F.T. Eyre and Daniel Gilbert

"You'd be surprised," said Andy, surveilling a row of smashed-up cars, "at how few people know how to properly ram a vehicle."

It had been an interesting morning so far. It started off with a slide show featuring the last mortal remains of various German executives, Italian politicians and U.S. diplomats. The classroom was a windowless room hung with the sayings of PLO Party Animal George Habash, quotes from the Baader-Meinhof training manual, autographed photos

of FBI agents duded up in Ninja outfits, bomb diagrams and a "DEFEND FIREARMS DEFEAT DUKAKIS" bumper sticker.

Next came the lecture on how to steer and brake properly—chances are you are doing it all wrong—how to "swerve to avoid," and drive off the road without requiring surgery. Very useful stuff, this.

You don't have to be an exec who's just gotten the happy news that you're being sent to head up the Lima, Peru, office to appreciate the three-day Executive Security Training course they give out at BSR in Summit Point, W.Va., two hours down the road from Washington, D.C. Suppose, as one of the instructors put it, you have a loved one who is going to die unless you get her to the hospital in ten minutes, and the hospital is 20 minutes away? You *will* learn how to do that. That's how they talk, the instructors, most of them former military sergeants: "I will give the first lecture tomorrow on surveillance detection, and you *will* find it compelling."

Right now we *were* about to get into a Buick LeSabre and ram a Volvo station wagon, and I *did* have a burbly sensation in my stomach. Angel, a 150-pound knot of muscle with a Zapata mustache and two tours in Vietnam with the 101st, was our ramming instructor. Here's the situation, he said: you round the curve, and there's a car blocking the road and two guys standing in front of it with guns pointed at you. "You can try to turn around, do a bootleg or a J-turn. Or," he added, insinuating his preference with just a crease of a smile, "you might just

Check your oil? **Whoa!**

decide you want to put a little Goodyear on 'em."

What you will find out about ramming is that it is counter-reflexive. All your life you've been hitting the brakes when you see a car stopped in front of you. Here they tell you to align either your right or left front wheel with the center of the other car's rear (usually) axle, to downshift into first gear 1½ car lengths away, then to hit the accelerator and to *stay on the accelerator* so that the other car absorbs the energy of the crash, not yours. You will do this twice during your three days at BSR. You *will* like it better the second time. The first, you're too busy concentrating on keeping your head from going through the windshield, which Angel assures you it won't, but you do not entirely believe him.

My classmates were natural rammers. They got the hang of it right away. One was with the Department of Labor's Inspector General's office, here so he would be able to drive the Secretary of Labor through harm's way. I could not for the life of me remember when an attempt had last been made on a Secretary of Labor, but who am I to begrudge the lovely Lynn Martin and her successors this consolation?

The others did not pass out business cards, or even last names. They were lean, fit, had short haircuts and Berettas. They were not in the least put out by the photographs of German industrialist roadkill, and when it came my turn to be ambushed, they shot me upside the head easy as pie, though they were considerate enough to say afterwards, "Sorry about killing you. Shoulda seen your face." Yuk, yuk.

I was not able to get a straight answer from Calvin Frye, who at the time was director of training programs at BSR, as to just who these cheery killers were, but I was able to determine that BSR is where they all send their people for special driver's ed: all branches of the military and government agencies, CIA, et cetera, et cetera. American executives come here as well, especially the ones who get those plum overseas postings that come with the name tags saying, "HELLO MY NAME IS JIM. MY COMPANY WILL GLADLY PAY MANY U.S. DOLLARS IN RANSOM."

There are other executive training schools. The

THE OTHERS DIDN'T PASS O
LEAN, FIT, HAD SHO

advantage of BSR—aside from the fact that it comes with a two-mile, ten-turn race track upon which you *will* have a gas—is that this is where all the feds go to train. The instructors have security clearances, meaning that they get state-of-the-art anti-terrorism input from the agencies whose people they train. They don't pass along classified information to non-cleared clients, but the expertise they impart is based on it.

The key theme of the course is: *force the bad guys to pick on someone else.* The way to do that, of course, is to make yourself a difficult target. Vary your route to the office every day, never set patterns, spend the five to six minutes every morning to see if they've wired a mercury switch and C-4 to your windshield wiper, phone in fake restaurant and airline reservations, change your plans constantly, and at the last minute, re-schedule, cancel again. "If you can get them to pick another victim," said Cal during the Attack Recognition class, "then you've been 100% successful. Once you're attacked, your

Dummy terrorists stage a "barricade confrontation."

chances of survival are about 10%."

"All right, suppose I throw you in the trunk," said Bruce during the Vehicle Security exercise, showing us how to detect car bombs. "What do you do?" Damn good question there, Bruce, and hell if I knew. Suffocate? Wet my pants? Bruce reached into the side of the trunk,

ST NAMES. THEY WERE IRCUTS AND BERETTAS.

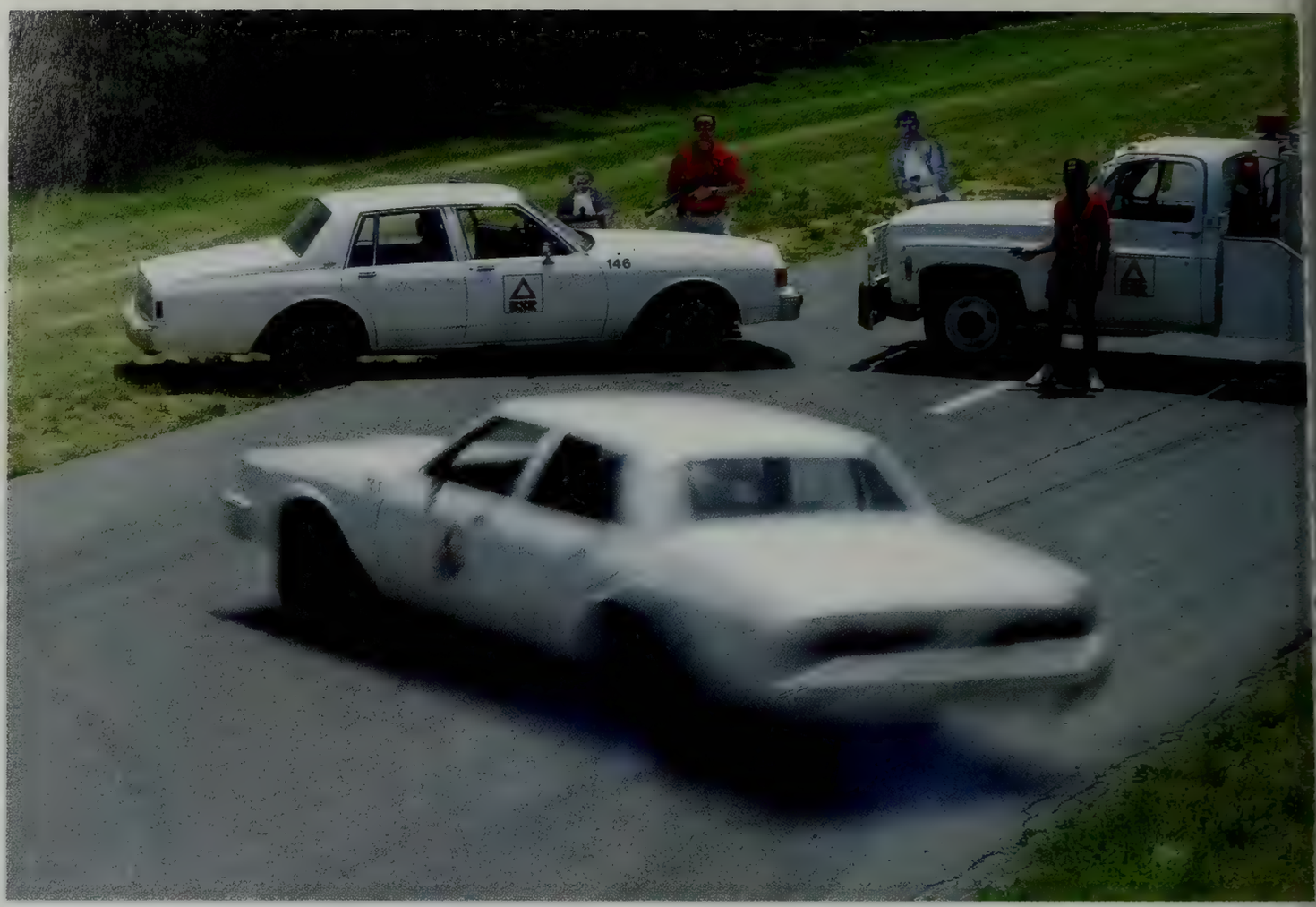
pulled out the two wires leading to the electric hood latch. With a pocketknife, he cut through the insulation and then pressed the wires together, shorting the circuit. The latch popped open. What if you don't have a knife? "Use your teeth," said Bruce. Better yet, carry a penknife.

We found a half-dozen bombs in the car, under the hood, on the exhaust, attached to the windshield wipers, underneath the seat, in the headrest. They kept going off before we found them, too. The bombs consisted of ten-inch long sections of dowel painted red to simulate sticks of TNT, and Play-Doh to signify C-4, attached to mercury switches, heat sensors and plain old plastic traveling alarm clocks. Angel gave the lecture on bombs, demonstrating some 17 different kinds. Once you learn how, it only takes five to six minutes to safety-check a car, using just a small 40,000-candlepower Maglite and a plastic tie as a probe.

Every time Angel introduced a different bomb, he'd

Angel shows off his favorite bombs.

say, "Now this one's my favorite." See that can of Coke on the backseat floor? "Pick it up, and next thing we'll be reading about you in the newspaper, in orbit up there with Sputnik." Ever heard of a "Firefly"? I'll refrain from divulging the precise recipe here, but it's pathetically simple to make: you fill a gelatin capsule with a certain household chemical and drop it down the gas tank. The water in the bottom of the tank will melt the gelatin, the chemical will make contact with the metal, causing a spark, causing the car to turn you into ground chuck. This seemed to me a darn good argument for locking gas caps, but Angel said no, no, "Those only keep honest guys out of your gas tank." What you do is dust the cap—



Kids, don't try this at home: **a student executes a bootleg at 40 mph.**

as well as the door handles—with talcum powder. If that dust looks disturbed the next morning, take a cab.

Angel said he plays "the dumb American" when he picks up his rent-a-car at foreign airports: makes them drive it up to him at the curb, then asks the guy to open the hoods, show him the spare, the dipstick, battery. If the guy won't open the hood, "get the hell away from the car." (I wonder how this is going to play at the Budget Rent A Car counter at LAX.)

Rental cars are an inside joke here. The BSR fleet consists of second-hand Chevy Caprice police cruisers, specially fitted with 350-horse V-8 engines, Rochester Quadrajet carburetors, Bilstein gas shocks, NASCAR-grade stock car wheels, sway bars and chrome moly axles. It is possible that the family car is not so neatly equipped, so we were advised to think twice before we went home and started pulling bootlegs and J-turns in the driveway. (Respectively, forward and reverse 180-degree turns, done at about 40 mph. The name comes from the inventors of the techniques.) At this point, Bruce grinned and, with a twinkle in his steely blues, said, "Why do you think God invented rent-a-cars?"

After a thoroughly enjoyable hour of doing bootlegs and Js, spreading rubber on the track like so much soft butter, it was time for the Barricade Confrontations. These were ambushes, basically. On us they used .22 caliber blanks; on advanced students they use 12-gauge shotgun blanks, which, Bruce said, "tends to increase the stress factor." After getting shot twice in the head, my stress factor did not need increasing. What it needed was a stiff drink. Before that could be achieved, though, there was the High Speed Pursuit, in which we drove around the track at 100 mph with instructors following close behind, blowing their horns, swerving, and bumping into our rear fenders. Contrary to the movies, they tell you here, most high-speed chases end with the pursued person crashing within two minutes or two miles. After the exercise, this did not come as a surprise to me. But there are things you can learn to make yourself faster. A car race, Bruce said, is won by the person who comes out of the turns fastest. It is also essential not to go into the turn too fast, and to come off your brake as you start your turn. "That's the difference," said Bruce, "between a mechanic and an artist."

AFTER GETTING "SHOT" TWICE NOT NEED INCREASING. WH

The lecture the next morning on Surveillance Detection was given by Andy, 27 years old, affable and boyish-looking, with ten years in the Marines, including tours at

he JFK Special Warfare Center and, I think, with Delta Force, the elite of the elite anti-terrorists. (BSR, I got the feeling, is fairly thick with Delta grads.) He was determinedly close-lipped about his experiences, except to allow as how they had been "practical."

Predictability, he emphasized, is the cardinal sin. Two people, he said, were snatched in Beirut during their routine golf game. (Is *nothing* sacred?) He was critical of Brig. Gen. Dozier, the U.S. Army general who got nabbed by the Red Brigades in Verona in 1981. "He was not the prime target," he said. "He was not even the secondary target. He was the tertiary target. He was the *easiest*. He PT'd (Physical Training) every morning on the dot at six."

He brought up an assassination attempt on General Trujillo. The gunmen struck while he was on his way to his regular assignation with his mistress. "Your principal," said Andy, "may try to hide this aspect of his life from you." Unwise, definitely. If no man is a hero to his valet, he sure as hell should not try to be one to his bodyguard. I thought back to a misty night in Washington when my wife and I saw a cabinet official walking up a side street toward a hotel. Here was a man with a security detail nearly the size of the President's, and he was completely alone. He kept his head down, avoiding eye contact, and the collar of his raincoat pulled up. What a nifty challenge it would have been for his press secretary to explain why he was found full of holes, naked and covered with Dom Pérignon in a suite at the Four Seasons.

The portion of Andy's lecture that dealt with Route Analysis was for the benefit of chauffeurs and bodyguards. Eighty percent of all terrorist incidents occur at the "chokepoints"—and almost always on the way to the office. The human element fails us once again: we're always running a little late, no time to vary the route this morning.

Fleeing the ambush is indeed heartily recommended, but only twice in the history of attacks have the bad guys given up the chase. (Tenacious little pricks, these terrorists.) And since your chances, as the pursued, of eluding them for more than two minutes or two miles are not favorable, you will want to have a pre-planned response. This basically means pre-selecting whither precisely you will flee.

E HEAD, MY STRESS FACTOR DID NEEDED WAS A STIFF DRINK.

Should the unpleasantness be occurring in an Arab country, Andy counsels against running to the nearest mosque. "Those places have a higher meaning," he said in his Georgia drawl. "You want to get *away* from that." He did advise driving your car into the nearest bank—literally, that is, through the front door. The drawback being that "the guard might shoot you, and the police might be pissed off at you." You could also throw a rock through a jewelry store, a definite attention-getter. Or run to a "high-density environment," like "an elementary school." ("U.S. EXECUTIVE HIDES FROM ATTACKERS IN KINDERGARTEN; 17 CHILDREN SLAIN!") As to shouting for help, he said it's better to yell "Fire!" than "Help!" Why? "Because it involves them."

The last day of the course was spent driving in a van through the streets of nearby Winchester, Va., while we tried to figure out who was "surveilling" us. Everyone, we paranoiacally assumed: mothers in Volvo station wagons, old ladies—surely they didn't think we were so dumb as to think those things in their ears were hearing aids?—tattooed biker types leaning against fences, a father and his three-year-old daughter parked outside a pediatrician's office—ha! did they think we were *fools*?—and everyone in every phone booth we passed. We wrote down their physical descriptions and the time of sighting, just as Andy had instructed us, to determine any patterns.

There are some tricks to Surveillance Detection. One is to wait until the light turns red, then go through and see who follows (other than annoyed cops, that is). If you're on foot, go into a restaurant, order a meal, pre-pay and pre-tip the waiter, then bolt, leaving the "surveillant" stuck with his tab. Oh, and if it's a Latin country, be sure to try this one: head for the nearest gay bar, leaving your macho surveillant too embarrassed to follow you in, presumably after fighting off a half-dozen Carmen Miranda wanna-bes.

Most of the people we were convinced were tailing us turned out to be "ghosts," which is to say, they weren't. On the third and final run through town, Andy dropped hints about where the ambush would occur. Being a surveillant is the most boring job in the world, definitely entry-level terrorism. But that doesn't mean they're

asleep. On the contrary, these people are looking to move up the terrorist career ladder. They're on the ball. General Haig was under surveillance for a month before the cranky Euro-terrorists blew up his motorcade outside Mons, Belgium, in 1979. The Basque separatists spent three years planning Spanish Premier Carrero Blanco's 1973 assassination. (Based, incidentally, on the 1881 assassination of Czar Alexander II by the Narodnaya Volya.) The Uruguayan Tupamaros who nabbed Sir Geoffrey Jackson in 1971 actually practiced on his car. The surveillance of the two U.S. Air Force colonels killed in Tehran in 1975 was so painstaking that the planners painted footprints for themselves on the ground at the attack site.

The diligence has to cut both ways. Following its bloody but unsuccessful attack on Maggie Thatcher in 1984, the IRA passed this message to the British government: "You have to be lucky every time. We only have to be lucky once." Probably the most conspicuously unsuccessful graduate of the BSR course was U.S. Marine Lt. Col. William Higgins, who while serving with the U.N. observer force in Lebanon was kidnapped, tortured and, probably, hanged. His captors, driving a brown Volvo, forced his Jeep Cherokee off the road with a basic blocking maneuver. The terrorists confused pursuing Israeli troops by deploying five brown Volvos in the area.

Excuse me, sir, do you have any Grey Poupon?

The most conspicuously successful BSR graduate is probably a certain U.S. diplomat who was stationed at the U.S. Embassy in Cairo in 1988. He and another man were driving through town one day when a Peugeot sedan started to pull up beside them. Three things were not right about the Peugeot. First, everyone inside was sitting on the left. Second, all the windows were down (in an air-conditioned car, in Cairo?). Third—this was the clincher—the driver was wearing mufflers over his ears. (No sense in losing your hearing over a couple of American diplomats.)

The diplomat and his passenger ducked and gunned their car forward. The attackers opened fire with submachine guns. The diplomat was shot in the neck, but he kept control. He drove up onto a sidewalk, where another gunman was waiting. He did what they train you to do here: not to reach for your gun, but to use the car as a 4,000-pound bullet. It works. The gunman jumped out of the way rather than end up as tread jam. The diplomat and his companion got away from their pursuers, members of a group that had specialized in killing Israeli diplomats in Cairo.

"We call that incident a failure," said Cal, "because the whole point is to avoid being attacked." Andy mentioned another instance in which a woman graduate "drove into her attacker and cut him in half, then did a u-turn and got out of there." Sounded like a success to me but "No," he said, "she should have kept right on going through him." They're tough graders here.

As we approached the chokepoint, we saw it pull out behind us, a brown Volvo, oddly enough. And there, up the street in a phone booth was the same guy in the Hawaiian shirt whom we'd seen earlier, standing on a corner. And there, pulling out in front of us was the same white four-door sedan. It turned to block us. The Volvo had us boxed from the rear.

"Okay, what do I do?" Andy asked.

"Ram," said one of the guys in the back.

"Which end?"

"Front."

"Nope. The trailing end. Always go for the trailing end, unless you have no other choice."

Suddenly a nice-looking woman, maybe the wife of one of the BSR instructors, and a cute little seven-year-old girl popped out of the shadows. They aimed sticks at us and went *bang bang*. The guys in the back knew exactly how it would all play out. They just smiled at the mom and little girl and went *bang bang* with their fingers.

"You figured it out," said Andy to his soldier-students, "and that's the difference between someone who's going to live and someone who won't."

For graduation, Cal handed us good ole boy hats with the BSR emblem. "I wouldn't wear it in front of any rent-a-car desk in the U.S.," he said. "They will definitely *not* give you a car if they see you walk up wearing this."

BSR offers a variety of specialty vehicle-related security and safety training programs—from accident avoidance and defensive driving for corporate and government drivers to pursuit techniques for law enforcement jurisdictions. Prices range from $295 for a one-day accident avoidance program to $1,250 for a three-day defensive driving course. BSR, Inc., P.O. Box 190, Summit Point, WV 25446. Phone: 304-725-6512; Fax: 304-728-7124.

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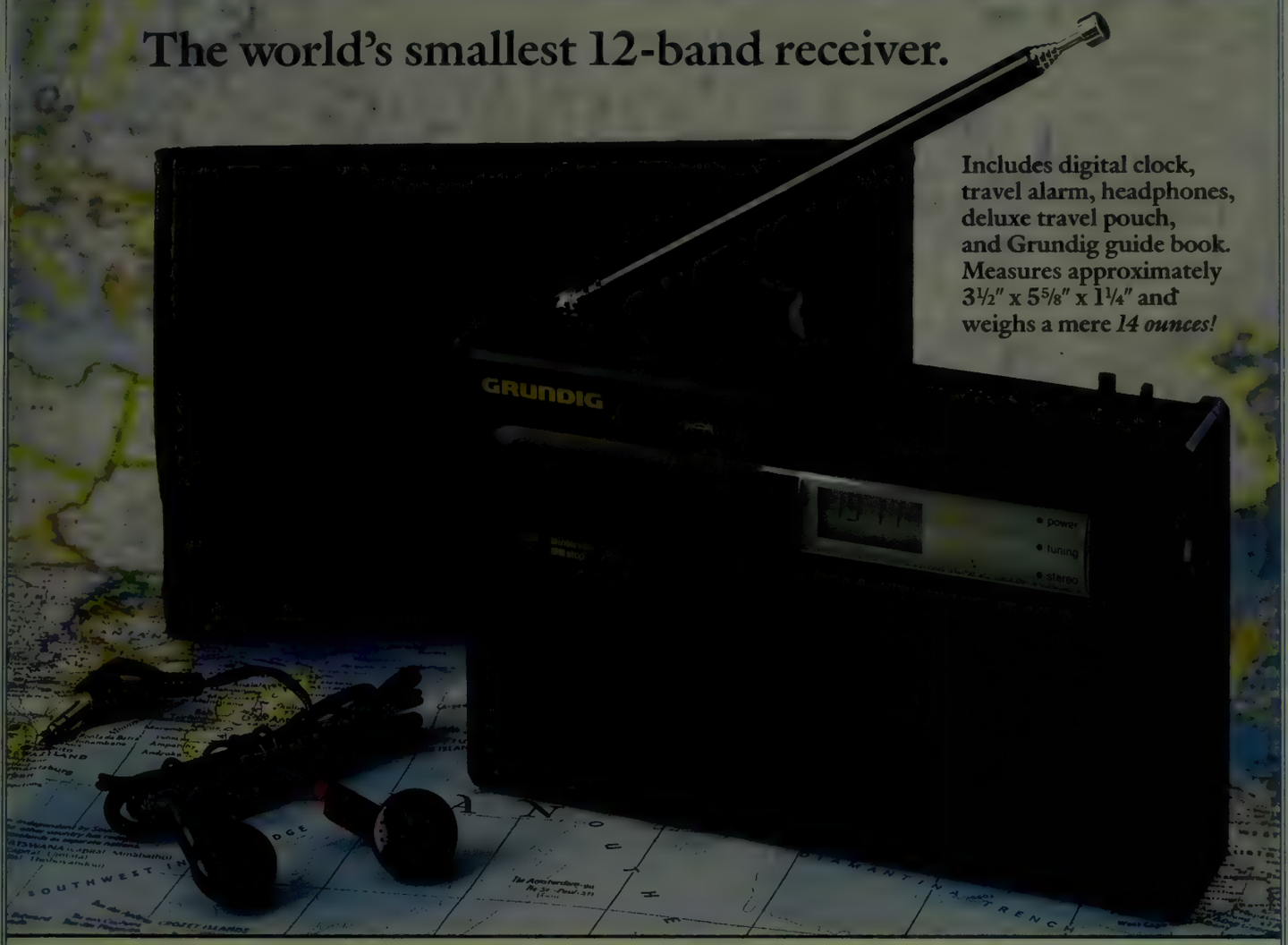

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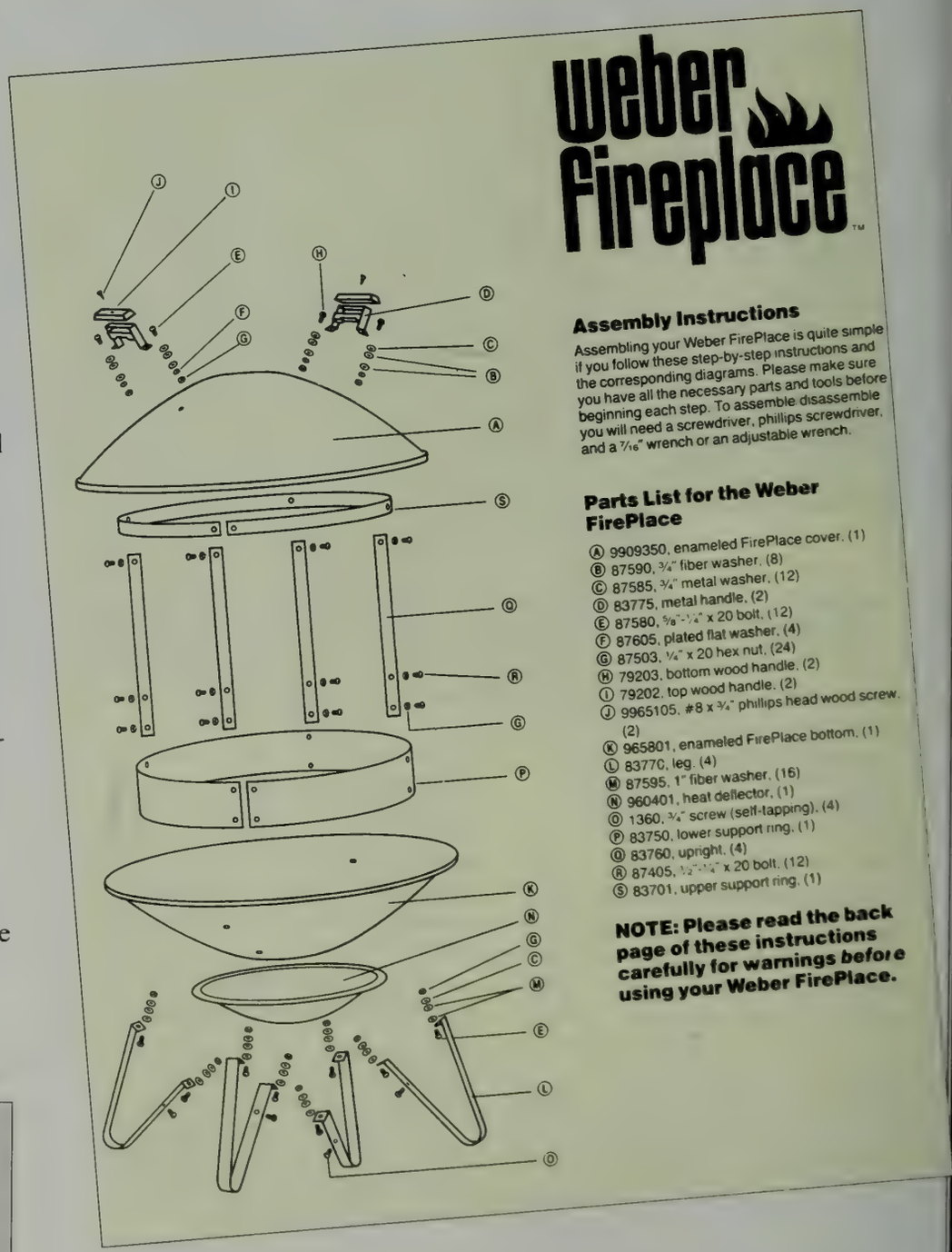

How To Get Your Kid Into OXFORD

By Christina Galbraith

Harvard, Yale, and maybe even Princeton all look fine on a resumé and make for good alma mater-dropping at a cocktail party. But for real éclat, nothing quite has the ring of an Oxford.

Never mind the snob appeal. The point here is that an Oxford education is in fact within the grasp of American high school students who are intelligent, have good marks (not necessarily straight As), and who don't take kindly to the S.A.T.s. For Dad, the good news is that, thanks to British socialism, Oxford is a bargain at as little as $15,000 a year.

But before we get to the nitty-gritty of applications, some background:

Oxford doesn't work the same way American universities do. The curriculum consists of a tutorial system, a weekly one- to two-hour meeting with your own private tutor. There are also lectures and classes, but the tutorials provide the core of study in your subject.

Tutorials don't allow for much leisurely time, or for the study of more than one or two subjects. Indeed, Oxford is not one of those liberal arts supermarkets where the American student can eternally experiment. One's subject is dealt with seriously and in depth, which is always a bonus for getting into a doctoral program later.

The tutorials are not necessarily dry, academic affairs. Indeed, imbibe a common bottle of sherry, and the affair can get quite merry, turning into a sometimes intimate "cheek-to-cheek." One of the more outré dons is actually known for conducting his tutorials on his leopard-printed bed from week to merry week.

There's no need, though, for a student to worry about not being renaissancely well-rounded. Just being within earshot of the hyper-intelligent student body can do the trick. There are language classes too, free of charge, not to mention the European continent just 45 minutes away by plane.

And of course, there are the university clubs. These range from the neo-Nazi Monday Club to the Anarchists Anonymous Association. Notwithstanding the occasionally blatant racism, sexism, xeno- and homophobia, Oxford is quite a stimulating place socially.

The university consists of 35 colleges, 28 of which admit undergraduates. The atmosphere of one's college significantly determines one's social life, since each functions as its own individual school, with tutors,

libraries, common rooms, residences and food halls.

Yet there are traits which transcend each college to give the university a more singular image. Oxford is, for example, a boisterously cheerful place, in which alcohol plays a key role. Everyone drinks, and heavily, whether you are in your college bar for a four-hour nightcap or in your tutorial for some Spanish sherry. Sherry is vital during a lesson, my tutor once explained, "because it's not fair if one person is playing an entirely different ball game than the next." The assumption behind this remark is that if the tutor isn't already half-drunk, the student is.

So, how does an American get into this place?

Oxford has two "official" modes of entry: the A-level system and the Oxbridge Exam. Both are excruciatingly difficult and cater to those students who have focused on one or two subjects during their education. Try not to have to take them.

There is, however, a better way for the American to enter Oxford as an undergraduate: personal communication. Quite different from its American counterparts, at Oxford one is not accepted by an anonymous admissions board but by a particular tutor in a particular college who is interested in working with you.

First, write for a booklet called "University Of Oxford, The Undergraduate Prospectus," at: The Oxford College Admissions Office, University Offices, Wellington Square, Oxford, England OX1 2JD (or call: 011 44-865-270010.) This gives a description of all the courses of study at the university and each college, and the name and subject of each tutor in its faculty. After choosing two subjects which you might be interested in, write to as many tutors as possible in the early spring of your junior year, explaining that you're interested in their subject, the atmosphere of that college and the mode of teaching. By all means request an interview in August (when they meet foreign students).

Considering that there are 30 or more tutors you can write to per subject, and that many of them are bored with their own kind and have nothing better to do during August, you can be sure that at least 60% will reply and schedule an interview. In fact, most tutors like to take on at least one or two foreign students within a class of ten.

Having an interview is crucial to getting in. Tutors have to know whether they can work with you, so if the chemistry is right between the two of you, it already puts you in a good position.

Hopping from one interview to the next also gives you a good idea of which tutors and colleges you like best. For example, I once had an interview with a goatish tutor at Oriel who spent the entire hour staring at my breasts, after which I realized that I did not like him much. Actually, most tutors are fairly young and liberal-minded, eager to get a diverse range of students into their curriculum to enrich it. If possible, bring a parent along to interviews as some tutors will be eager to talk to them about you.

Generally, the best way to come across is inquisitive, eager, and learned-but-humble. But there have been flamboyant exceptions. The possibly apocryphal story is told of an interview-weary don who, on hearing the knock of the umpteenth interviewee on his door, did not even look up from his newspaper. "Surprise me," he said to the young man. The boy produced a lighter and set fire to his newspaper. And got a place that fall. Caution: use this technique at your own risk.

When you know which tutors are eager to have you, send in for an application form. In Britain, one must apply to Universities Central Council on Admissions (UCCA), the national bureau that distributes all university applications. A copy of the current UCCA handbook: "How To Apply For Admission To A University" and an application form may be obtained from: UCCA, PO Box 28, Cheltenham, Gloucestershire, England GL50 3SA. There is a £5 postage fee and a £7 fee when you eventually send in your application to the same address.

Oxford Admissions actually gives you three chances to get in, because if your first-choice college rejects you, the application is passed onto your second, and then your third. The application also asks for extra-curricular activities and for a personal statement. Once you send this in, notify the tutors concerned and just sit and wait. Come January, if someone has taken a liking to you, you will get a note or a phone call offering you a place. If not, of course there's always Cambridge, "the other place," which has the same system of entry and is perhaps worth considering.

If you get into Oxford, go. You can always defer entry to the American college of your choice, as a safety to fall back on if, for some reason, you don't like Oxford, or if it doesn't take a liking to you. But chances are that you will love Oxford and love the way the whole world continues to romanticize the Oxford Man.

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CHRISTINA GALBRAITH, *Oxford '91, is currently an intern at CNN.*

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The hot electrical current tore down a cable and blew out four computer cards!

So?

So? Well, so several things. One of them is that the replacement cost of the cards is $12,000. Until the cards are back in (ten days later, the replacements haven't yet arrived), the officers on duty will need to attend to a little more detail than they were used to.

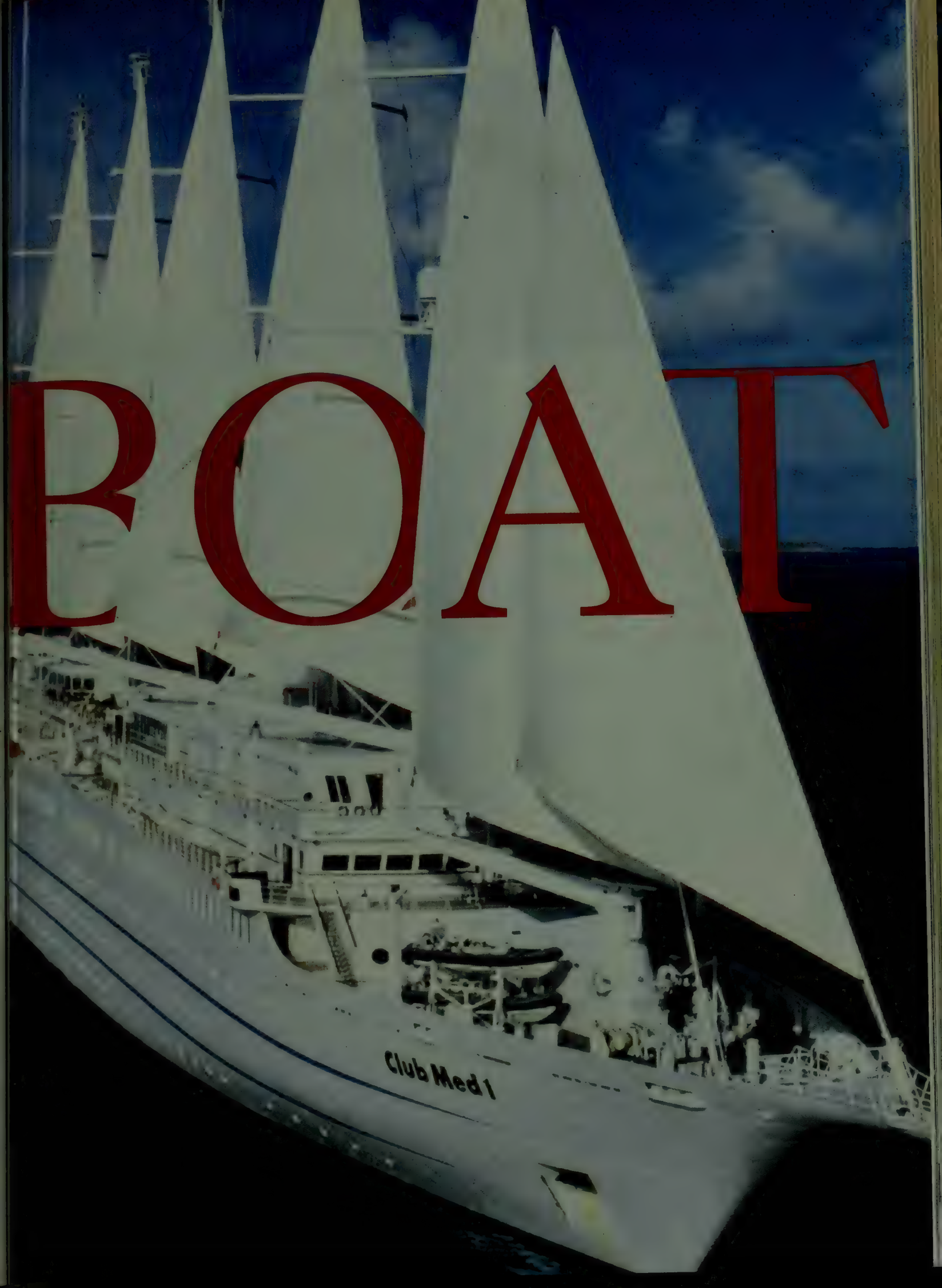
Is that something we need to worry about?

Well, come to think of it, no, not really. The extra work can easily be done on the bridge, using fewer fingers than you have in one hand—to depress this button and that one, which the computer would ordinarily have governed. The gentlemen on the bridge suffer only from the humiliation of it all: a windmill without wind, a vintage claret without a corkscrew. When the computer is working, any sudden increase in pressure against the ship's seven sails (they measure 8,970 square feet) is automatically weighed, and derivative instructions sent out to the ship's moving parts.

Explain, please.

A hard gust of wind generates pressure on the sails. The extent of that increase in pressure is measured, and the computer instructs the sheets, which are attached to the clews of the sails, to slacken off—spilling the incremental wind and thereby easing the tension. Simultaneously, the computer instructs the windward seawater ballast to ingest more water, while the leeward ballast chamber rushes to empty its supply of water. It is most terribly important to do all of this before the ship lists over more than two degrees, that being, on *Club Med 1*, the limit of official toleration. If the ship were to heel more than two degrees, passengers might notice that they were under sail, and that isn't really the idea, on the

BOAT



world's largest sailboat. So that everything described above happens within approximately three seconds. Without the control cards, the maneuvers, executed in response to finger-depressed buttons, might take as much as 15 or even 20 seconds.

The visitor at the bridge reacts. "Miraculous! The passengers are certainly impressed by that, I can imagine!"

"The passengers," the officer replies with Gallic nonchalance, a) don't know that this is happening; b) wouldn't be interested if they were told; c) never know whether the sails are up or not; d) don't care; e) care mostly "zat zehr shood nat be no comossion."

"Why then do they bother to come to a sailing-cruising boat instead of to regular cruise liners?"

"Because ze sails arre romantique."

But there are other reasons for the sails. In the best of breezes they will propel *Club Med 1* at nine knots, and this adds up, in the course of a year, to a reduced fuel consumption of 25%.

"Does the saving in fuel compensate for the cost of the sails and the rigging?"

"Not nearly."

This was the second week of the second Caribbean season of *Club Med 1*, a remarkable architectural achievement built at Le Havre at a cost of $100 million. The 617-foot megabark arrived in New York in October after a "*gastronomique*" crossing, Le Havre-Azores-New York. How management was able to make that trip more "gastronomic" than is routine aboard *Club Med 1* is difficult to imagine. The menu on Friday night: vegetable soup; duck liver from Périgord with a citrus fruit jelly; crispy vegetables light on vinaigrette sauce; "Meli-Melo" plate, gambas, spiny lobsters, scallops; spaghetti with garlic; fillet of beef, sauce béarnaise; salad "Bagatelle"; vegetables in cream sauce; cheese trolley; assortment of breads; pastry gourmet; sorbet of the day. And all of the above Four Seasons quality. The table wines, red (C+), white (B-), rosé (B), are on the house, in good French tradition. You can, of course, order special wines from the cellar—which does not rock more than two degrees.

From New York she cruises down to the Antilles to begin the winter seas (October 15 to late May); at which poi she returns to the weste Mediterranean to do tl same kind of thing, wi Cannes as the home po After dinner, every nigh there is a musical spect cle, which is pretty spe tacular when you consid that it is being executed b the same people who, du ing the day, teach yo bridge, manicure you nails, lead the gym clas instruct you in Sailfishin scuba diving, snorkelin wait on tables, and give you massage Thirty-two officers run the ship. Tw hundred men and women serve the pas sengers (386, when the ship is sold out).

Utterly indulgent service, one quickly learns, is Club Med 1*'s proudest tradition. Everyone is either congenitally appealing and solicitous, or else has cultivated the habit of aiming to please.*

Utterly indulgent service, one quickl learns, is, along with the cuisine and th sporting life, the Club Med's proudest tra dition. Any boat especially designed t heel not more than two degrees is obvi ously above all things user-friendly, an everyone from the janitors to the captai is either congenitally appealing and solici tous, or else has cultivated the habit o aiming to please, without, one hastens t note, that extreme unction that can mak Oriental hospitality so cloying. And thi notwithstanding that some of the youn crew members are on duty 18 hours a day On the seventh day, all they need to do i discharge the lame duck passengers at dif ferent times of the day, depending on whether they are returning to New York (about one-third), or to Paris (about one-half), or to other destinations; render the entire boat spotless; take on seven days' supplies; and board the next set of passengers at 5 p.m.

The cabins are identical (with two larger, more expensive exceptions). They are advertised as the largest cabins on any sailing vessel, which isn't a difficult claim to make. They are 188 square feet, and include, of course, a complete bathroom (shower only). There are two large portholes only a little bit higher than eye level when you are sitting down, which, however, only one occupant can do: there is no chair for the second, who will need to stretch out on one of the beds. An ingeniously anchored television set can be turned toward the front of the room, to be

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seen while making up in front of the mirror, or toward the portholes, to be viewed while lying down on the bed. The regimen is interesting and not entirely satisfying. A single movie is selected every day on the English channel, and when it finishes, it simply begins again. I had never seen *Raiders Of The Lost Ark*, but now I have seen about four-tenths of it: one-tenth at breakfast time, one-tenth before the afternoon nap, one-tenth after the gym workout before dinner, one-tenth before falling to sleep. (One day I will catch the missing segments, maybe on a future trip aboard *Club Med 1*.) A second channel gives you continuous sea-scene allurements, specializing in dolphins and water skiers and sailing boats.

It should be noted that the hours are wonderfully latitudinarian aboard *Club Med 1*. Maybe you stayed up late, cavorting in the underground disco, or breaking the bank at the casino? Or maybe you are an early riser? Either way, breakfast is austere if you want it at 5 a.m.—you will need to settle for hot croissants and coffee and juice. If you manage to sleep until seven, you can have just about anything you would want to eat in the morning, and a whole lot you almost certainly won't want to eat, like exotic underwater life. If you sleep in later than 11, which is when the breakfast room closes, you will have to contain your hunger until 12:30, when lunch begins. Or you can order a light meal in your cabin—24 hours per day.

Amateur economists wonder how the company can hope to amortize its $100 million investment, let alone the $150 million investment in the sister ship scheduled for duty in Tahiti. At $1,690-$2,390 per passenger per week (depending on the deck and the particular cruise), one figures the first 200 passengers' fees are going in just to pay the interest costs. It's nice to sense the worry the passengers feel for the boat, so instant is the loyalty to it: there was much more talk about Club Med's deficit than about the national deficit. It would be quite awful if the whole thing did not pan out. Unthinkable!

But the cruising business is booming, and one must suppose that *Club Med 1* will thrive. A week aboard reminds you how relaxing it can be to travel from Fort-de-France in Martinique—back to Fort-de-France in Martinique—in seven easygoing days with stops, some as long as 15 hours, at St. Lucia, Bequia, Barbados, Tobago, Mayreau, and Sandy Island. It is profane to roll off the names of such islands, as though they were subway stops. They include beaches poor Gauguin never saw, palm trees that drive spooning couples to the altar, clear blue-green waters that mistake themselves for your portable aquarium. These are among the loveliest islands in the world. *Tout court*, as they might put it, on board.

Beaches poor Gauguin never saw, palm trees that drive spooning couples to the altar, clear blue-green waters that mistake themselves for your portable aquarium...

Perfect? Not for those with demanding, perhaps eccentric, tastes. For instance, those few who don't like beach life but who like total immersion other than in swimming pools. They would welcome some kind of an off-boat raft that would allow the passenger to jump into the sea from the water-level transom platform and swim over to an anchored raft, avoiding the water-skiers and scuba divers whose omnipresence now causes management to forbid M. Hulot his casual dip into the sea from the mother vessel.

But there are no other frustrations. The cornucopia continually surprises, as when on Day Four one comes upon a beach privately leased by Club Med, established there with large, thatched parasols, and the roasted lobster and white wine are brought to you by the service crew while you watch your fellow passengers skiffing about on catamarans and Sunfish, and idle snorkelers taking it all in dorsally, worrying only about *Club Med 1's* responsibility for their swelling girths; and you are grateful that the delivery of the ship's newspaper is eccentric, so that you just might not get word right away of the latest eruption, political or natural; and then the cost of telephoning from *Club Med 1* is just high enough to discourage even the most conscientious colleagues back in the office from distracting you from the pressingly important matters at hand.

(For more information about cruising the Caribbean so sybaritically, call 800-Club Med.)

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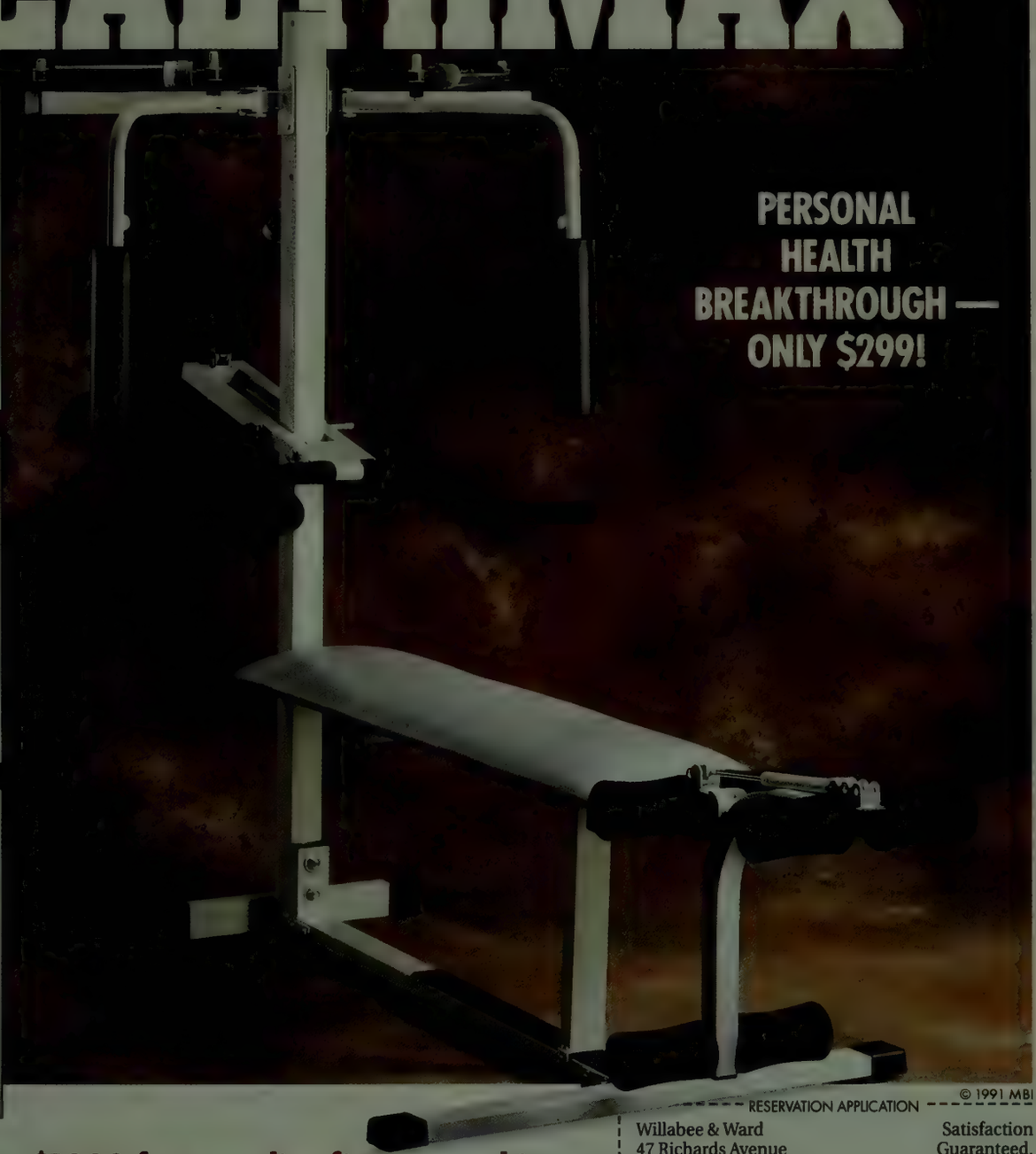

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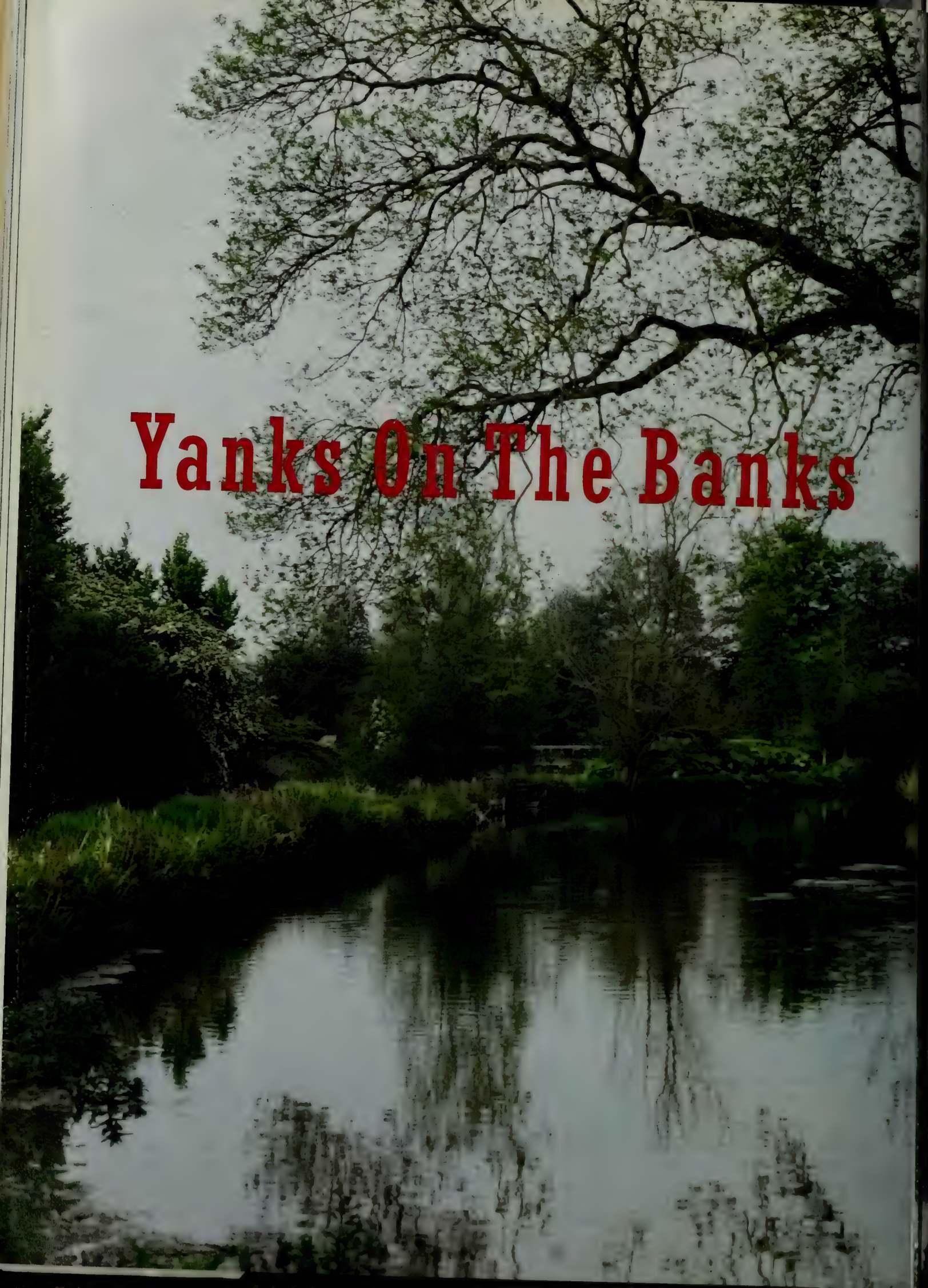
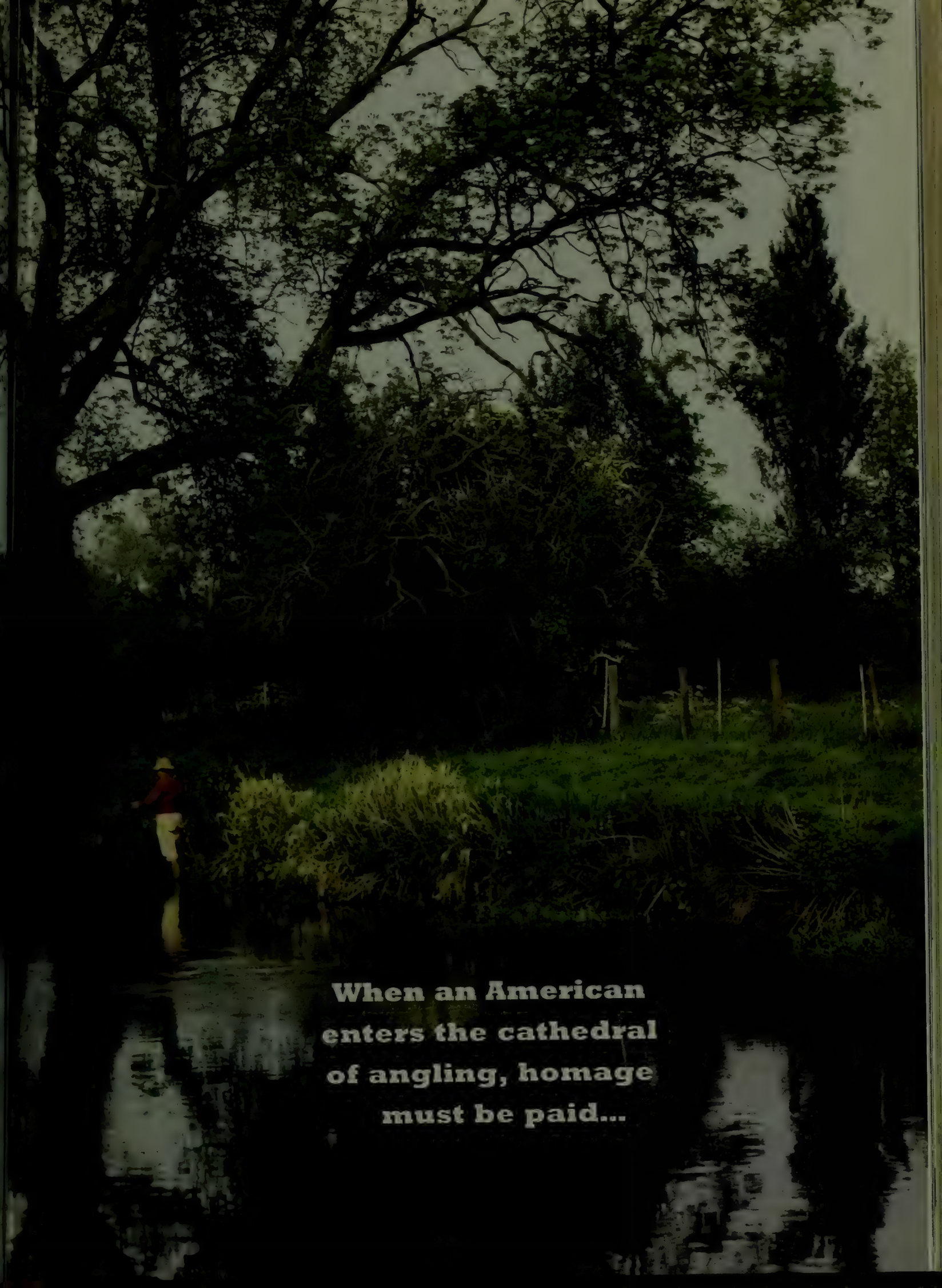

Yanks On The Banks


When an American
enters the cathedral
of angling, homage
must be paid...

By Geoffrey Norman

The River Test. It seemed right to think of the stream by its proper name. A matter of respect, I suppose, from an American trout fisherman who had been reading about this river, without ever expecting to see it, much less cast a fly to its trout, for more than 20 years. I studied the river and felt, for a moment, like I had made some contact across time with Izaak Walton himself. Though Walton had never fished the river, the sensibilities that he articulated in *The Compleat Angler* reached their most refined state on this Hampshire chalk stream.

The Test is the cathedral of angling.

Until fairly recently, it was the rare American angler who was fortunate enough to fish on the Test. One did so by invitation only. In England, there is very little of what the American angler thinks of as "public water." Streams like the Test are owned, beats are leased, and those leases are prized.

The Test, for instance, flows through Broadlands, the late Lord Louis Mountbatten's estate and the home, at one time, of Lord Palmerston, twice British Prime Minister at the height of the Empire. A generation ago, if you were one of Lord Louis's many celebrated friends, you might have been invited for some fishing. Otherwise, you would merely read about the Test and try to imagine how it would be to fish there.

Then economics began to chip away at tradition. Lean times in England, combined with prosperity and a thirst for sport elsewhere, brought some of the fishing beats onto the market, where they were quickly bought up. Leigh Perkins, owner of America's Orvis Co., was one of the buyers and my host this morning. We had come with our wives, in late May, and this was our first morning on the river.

It looked exactly like it was supposed to look, which is to say, more stately and manicured and picturesque than I could have imagined. Cuckoo birds sang from some unseen location. Willow trees grew along the banks, their branches hanging over the water like curtains. Vivid green watercress sprouted from the banks, and mats of elodea covered the shallow bottom. A pair of regally white swans swam across the slow water of a deep pool.

There was something a little daunting about it all. I felt the kind of inadequacy you would experience upon arriving at Savile Row to be fitted for the first time. England has this way of making Americans feel like they don't quite have the...what? Breeding? Touch? Something.

In fact, I had not dressed for a day of fishing. Clinging to my provincialism until my knuckles were white, I had disdained the "breeks" (the proper word for knickers, I was told), tweed jacket and necktie which are customary for a gentleman on the Test. But my wife had happily dressed for the occasion. She looked great and was in pleasant harmony with her surroundings. But then, she had not read Halford and Skues and knew nothing of my dread. I decided to stick close to her as we began walking the bank in search of a rising fish.

"Isn't it beautiful?" she said.

"Uh huh," I answered, dreading my first cast, though she was the only one around who could watch me fail. Our party had split up, and we had half of our fairly large beat, called Timsbury, entirely to ourselves. Still, I felt the eyes of ghosts were upon me. The shades of Walton, Halford, Skues, Hills, and all the other venerables of angling. A part of me longed to be back in the Colonies among the commoners, where I belonged.

"I'm glad we're here," she said.

"So am I," I said, not without a generous measure of ambivalence.

We walked upstream, 200 or 300 yards, watching the water. One of the iron rules of fly-fishing in England is: gentlemen fish upstream only. A man named Stewart is generally credited with formulating this particular orthodoxy sometime around 1860. His thinking was that, since the mayfly drifts downstream under no control except that of the current, to best duplicate this natural condition, the angler should cast upstream, over and across the fish, and let his fly drift down on a slack line. The rules of sporting etiquette are as durable as titles in England, so one still fishes upstream and can expect a rebuke if he does otherwise.

Perkins had told us, at breakfast, that on his first trip to the Test he was standing on a small bridge, watching the river and inadvertently let his fly dangle in the water behind him. The current pulled off a few feet of slack line and the fly drifted downstream. A stern-looking man in tweeds, who was probably known as "the Major"

It looked more stately and manicured a

On the banks of the River Itchen, Leigh Perkins of the Orvis Company and his wife Romi.

to his friends, said, "Young man, pick up that fly. You are not fishing like a gentleman." Perkins was in his 40s at the time.

"What did you do?" my wife asked.

"I picked up the fly."

So we walked upstream.

Eventually, I saw a glint beneath the surface, a brief reflection as though from the blade of a knife turned suddenly in the hand. It came, no doubt, from a trout taking a nymph.

Normally, I would have put on a Hare's Ear or Pheasant Tail and made a cast, putting the fly two or three feet upstream of the point where I'd seen the flash. If I saw it again, I would strike, hoping the fish would go for my fly.

But not today.

One of the other theological rituals nurtured on these streams is the cult of the dry fly. Frederic Halford formulated the code in the late 19th century, and gentlemen of his day would have sooner given up India than fish a sunken fly. Halford's influence dominated—nay, ruled—until he was challenged by another Test angler, G.E.M. Skues. Skues argued that the nymph, especially if it were fished upstream on a slack line, required every bit as much skill as the hackled fly, and no gentleman need skulk in shame because he occasionally used, or even preferred, a wet fly.

Perkins had told us that on his water such recondite distinctions did not apply. American rules—which amount to "whatever works"—were in force. But I wanted to make my first cast on the Test to a rising trout upstream with a dry fly. Halford, I felt, was sternly looking over my shoulder.

turesque than I could have imagined.

I left the nymphing fish, feeling the virtuousness of duty done.

It was another hour or two before I found one of the Test's brown trout rising, out near the middle of the stream at the edge of a weed bed. Nothing seemed to be hatching, so it was hard to know what fly to use. The fish came up again while my wife and I watched. It was a solid fish. Three pounds, maybe.

"After you," I said.

"No...you."

"Go ahead."

Finally, I prevailed. She made a few smooth, athletic casts, and her fly landed daintily on the hackle points and floated softly down the line of current to the place where the fish was rising.

Nothing.

John Russell waiting on the banks of the Test for either trout to rise or the picnic to begin.

"Maybe you should change flies."

"To what?" she said. "Nothing is hatching."

"Yes," I said wisely, "that could be a problem."

"Maybe I should try a nymph. Fish it as an emerger."

Heresy. But I was in no position to argue. I had Halford on my side, but she was the one wearing the breeks.

I was saved by Perkins, who had walked over to join us. He'd found fish downstream and was happily taking them on nymphs. My wife went off with him, leaving me to the rising fish and my stubborn sense of tradition.

I tried a half-dozen (dry) patterns and 50 casts (all upstream) before the fish finally rose to an Iron Blue Dun. When I set the hook, the fish bore down into the elodea, and the rod bowed until I was sure the tippet would give under the strain. I kept the pressure on, and the graphite rod did for me what greenheart and then split cane had done for generations before me. In a few minutes, I had the fish at the bank. Its solid, silver body was dappled with spots of deep brown bordering on gold, a hue as suitable for this stream as a subtly shaded worsted would be on Savile Row. Rainbow trout, though present here, seem gaudy and out of place on the Test.

I slipped the hook gently from the trout's jaw, and it swam away wearily. Except for releasing the fish (the English still kill them), I had done it all according to Halford. I was ready for lunch.

It was a picnic, spread on the mown grass by a little fishing hut where we stored our gear. Boiled eggs, cold chicken, Stilton and blue Cheshire cheese (nobody had told me about the cheeses, which were as satisfying as the fishing) along with a couple of clarets provided by

The trout's silver body was dappled

John Russell, who had been a wine buyer for Fortnum's before he became head of Orvis U.K.

Russell asked about the fishing and nodded soberly to acknowledge my accomplishment. He asked, while he poured the wine, if we would like to fish on his club water sometime in the next day or two.

Certainly.

"It's quite good water, actually," he said. "But I must warn you. None of this nymphing and downstream casting such as Leigh allows on his beats."

Perkins grinned with the satisfaction of a man who has bought the bar and now cannot be 86ed.

"Upstream, dry fly only," Russell said.

I thought, somewhat smugly, that I was up to it.

The cheese and wine sat so pleasantly on the stomach that I slept for an hour beneath a willow, then fished

on until late afternoon, taking a few more fish by orthodox means and feeling something like one of Jackson's troops outside of New Orleans. These Limeys weren't so tough.

At dusk, we drove back through Romsey and onto the grounds of Broadlands. The fields were full of pheasant. The Prince of Wales had once bagged 200 birds on a driven shoot here, in the days before before the murder of Lord Mountbatten.

We were staying on the estate, at Lee Park Lodge, which had been converted from servant's quarters into a very comfortable eight-room inn complete with faxes for the angler who can't quite get away from it all. The drinks and dinner—poached salmon—finished off a good day of civilized fishing.

The next morning, we drove to the Itchen, another Hampshire chalk stream as celebrated among anglers as the Test. I continued to take fish with a kind of fussy attention to the rules that I imagined Halford would have approved of, and that my fishing buddies back home would have hooted at. I pictured *FYI*'s own Coyote Jack on the Itchen—and quickly put the image out of my mind.

In England, angling is a civilized affair where small huts are available for changing clothes and storing rods, and helpful signs warn of the presence of "beestes."

At one point in the afternoon, I stood on the bank across the stream from a dignified Tudor home where the gentleman and the lady of the manor took tea and read their papers on the lawn. The gardener was a hundred feet away, busy with the roses.

A large brown trout held snugly against the opposite bank, occasionally taking a small mayfly. From a position

s of deep brown.

downstream, at about the limit of my casting range, I could cover him with my fly. The gardener looked up impassively and watched me at my work.

I felt ready for an audience.

It took several casts and three or four fly changes, but the fish finally took. It ran off line upstream, broke the water three or four times, and finally came reluctantly to the net. I released the fish, and when I looked up the gardener nodded approvingly and clapped softly.

I nodded back, a little gravely. Wouldn't do, I thought, to show too much emotion. That evening, we ate at a pub. Steak and kidney pie, with a couple of pints for me—I was getting the hang of this thing. Soon, I supposed, I'd be trying on breeks and thinking about going down to London for a suit.

The next morning was the real test, on John Russell's water on the River Kennet. On the drive up, past fields of spectacularly golden rape, he reminded us again that we were to fish dry flies, upstream. He did this politely, of course—they don't do things any other way—but it was plain he was serious.

The stream was smaller than either the Test or the Itchen. But it was, in all other respects, a classic English chalk stream. Its pull was irresistible.

I had put down one or two small fish by the end of the morning and was thinking about blue Cheshire cheese and a glass of claret, when I saw a solid bulge in the water against a thick clump of weed, close to the bank. I watched, and after a minute or two, the fish rose impressively again.

This was a big fish, anywhere in the world.

There were two problems, however. First, the lie of the fish made an upstream cast almost impossible. But it was so big...and I was alone. I was sorely tempted to apostasy. But I tried a couple of positions and finally found a spot where I could make an upstream cast and, if it were precise, get a downstream drift of perhaps a foot, no more.

Then, there was the problem of what fly to use. There was nothing at all hatching. I studied the surface of the river but there were no spent flies, either. The fish, I decided, must be taking terrestrial insects that had fallen into the water from the bank.

I went through my fly boxes until I found a Black Ant in a box full of flies that I had used on the Henrys Fork and other streams out West. It was tied with hair and it floated, making it—by my definition and certainly Coyote Jack's—a dry fly.

I put a little Muclin on it to make sure it would float and began working the fish.

The casts fell short, at first, so I shot a little line and put the fly in a bush. Worked it out gently, adjusted my aim and had the range. But the fish was rising on a rhythm. It was not enough to float the fly over him, it had to be on his count. After a while I picked it up, made a couple of false casts to dry the Ant, and dropped it 12 inches from the trout's nose on a perfect line.

He took , and I felt like I had found the Grail.

Leigh and his wife Romi came down the little footpath just in time to help me net the fish, which might have gone five pounds, easily the largest brown I had ever taken on a fly, wet or dry, upstream or down. They were impressed. So was I. I walked back to the site of our picnic feeling glory.

"How was the fishing?" John Russell asked, opening another fine claret.

I told him, with what I thought suitable modesty, about my fish.

"Splendid," he said. "What did you take him on?"

"A Black Ant."

His face clouded, ever so slightly. "Highly suspect," he said, then smiled. You just can't ever get it right with these people.

Rube or not, I enjoyed the fishing, and the next day, on the Kimbridge beat of the Test, we had one of those times that transcends the rules. The big green fly that would be called a Green Drake in the States and that the English refer to simply as "the mayfly" hatched abundantly. We caught trout beyond counting. Leigh Perkins took 15 in as many casts. Late in the day, tired but unable to quit with so many fish still rising, he sat on a bench, and took another 13 straight without moving. They were all big, solid fish.

On the Kimbridge beat of the Test, we had one of those times that transcends the rules. We caught trout beyond counting. Leigh Perkins took 15 in as many casts.

At one point, John Russell and his wife Anthea dropped by on their way to a wedding. Russell wore his morning clothes but couldn't resist. He made a couple of casts and, with perfect composure, caught a fish.

The image of him in his cutaway playing a heavy brown trout on a small graphite rod is indelible. So are the epic fish taking my heretical Ant, the sound of the cuckoos, the swans, the cheese, the pub lunches, and the rules that seem absurd in the abstract but begin to make sense when you're there. So much sense that, when it is time to leave, you begin to think about getting back and, next time, doing it right, all the way down to the tweeds and breeks.

The season on the Hampshire chalk streams runs from April to October. The best fishing is, arguably, in May, when we were there. From the States one flies to Heathrow and then drives down to Hampshire. For reservations, contact Alan DeNicola, Orvis Co., Manchester, VT 05254. 800-235-9763; Fax: 800-362-3525. Or contact Orvis U.K. directly at 011 44-264-781-212; Fax: 011 44-264-781-882.

If you are interested in staying at Lee Park Lodge, where we stayed—and which we heartily recommend—contact Anthony Hughes-Onslow, General Manager, Broadlands, Romsey, Hampshire, England SO 51 9ZD. 011 44-794-517888. Fax: 011 44-794-516878.

As always the welcome was warm from the staff who called me by name. The Peninsula had always been the personal retreat of the world's most celebrated travellers. And now it was mine. Turning the key in the lock, Kwan Ling opened the door to the room I knew so well. At that moment it was as if I belonged nowhere else but back in the suite they call the Moon Pearl.

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THE OVERINDULGENCE OF THE 80'S IS A THING OF THE PAST. HEALTH CLUBS ARE FINE AS FAR AS THEY GO, BUT WHEN WAS THE LAST TIME YOU DID SOMETHING FOR YOUR HEAD MORE STIMULATING THAN THE SUNDAY TIMES CROSSWORD? MAYBE IT'S TIME FOR...

BRAIN Cocktails

BY PETER OCCHIOGROSSO

ILLUSTRATIONS BY RONALD SEARLE

Like the search for instant enlightenment, the quest for quick relaxation from executive stress has led to some pretty exotic formulas. Over the past few decades, the three-martini lunch has given way to stress management seminars, biofeedback, flotation tanks, even Transcendental Meditation. But these methods, for various reasons, have never exactly meshed with executive life.

Recently, though, a number of odd-looking gadgets have started turning up in the pages of mail-order catalogues like Hammacher Schlemmer and the Sharper Image. Dark glasses with flashing lights and headphones attached to consoles with numbered buttons promise to "give your brain a tune-up," or "guide your mind into a state of deep relaxation, enhancing creativity, accelerating learning and improving levels of concentration." One ad even guarantees, with a subtlety level appropriate for Ginsu knives: "In 28 Minutes You'll Be Meditating Like A Zen Monk!" Overheated ad copy aside, though, the things seem to be fairly flying off the shelves, proving, for example, to be one of the Sharper Image's best-selling items both mail order and in-store.

All this caught our attention, to be sure. It also made us wonder if these "sound and light machines"—which, after all, look like something Mr. Spock might wear on the deck of the *Enterprise*—really work, or if they're just the latest version of quad stereo. After hearing some of the remarkable claims made by their manufacturers, including increased I.Q. and cures for insomnia, I set out to sample the current hardware and interview executives and professionals who were using these devices. The results are—dare I say?—enlightening.

First stop on my journey as psychological explorer/guinea pig was the SoHo office of Synchro Energize, one of the numerous "brain spas" that have been creeping onto the American urban landscape over the last few years. The idea of a health club for the mind, a place to go for mental aerobics to sharpen and ultimately relax your brain, seems perfect for the '90s. But compared to other such spas I'd read about, Synchro Energize was a decidedly low-tech-looking room filled with loftbeds, recliners and one large waterbed. I was told to lie down, place a pair of goggles over my eyes and put on headphones. Then I was asked to choose the kind of music I'd like: classical, jazz, rock, or New Age. I opted for Brahms.

Lying back on the waterbed, I closed my eyes and began watching one of the most astonishing light displays I'd ever seen. This put *Fantasia* and the last reel of *2001* to shame. Hundreds of swirling, pulsing and alternating patterns rich in blues, reds and yellows took the shape of medieval rose windows, whirling mandalas, Op Art. I could hear tones beeping in synch with the light patterns, all but drowned out by a Brahms piano sonata that had never sounded better.

Part way through, the lights began flashing at a much faster rate, an exhilarating effect that I didn't want to stop. But the woman who was programming the Synchro-Energizer from a console in the next room moved on to a slower, more deliberate pattern. As a bright yellow light filled my field of vision, a silly grin involuntarily enveloped my face. Sure, this was fun, but was it relaxing? I felt more *excited* than anything else. Yet when I emerged 45 minutes later, I noticed that my speaking voice was much slower and calmer. And when I left the Synchro Energize salon on Broadway, I found myself strolling rather than rushing to my next appointment.

I later discovered that the man behind the Synchro-Energizer, one Denis Gorges, is shrouded in some controversy. And although his salon-size Synchro-Energizer gets high marks from other users, his portable model, called the Relaxman, is more expensive and less versatile than most of the competition. Clearly, I needed to get firsthand opinions from business people who had been using these machines for a while.

One of the most striking stories I heard came from Barron Reinach, a 37-year-old commodities trader who lives on Central Park West in Manhattan. After failing to find relief from the anxiety generated by ten years of working the floor of the New York Futures and American Commodities Exchanges (he's even tried meditation among other things), Reinach visited Synchro Energize in SoHo. There he put on goggles and headphones just like the ones I had tried. "An hour of Synchro-Energizer and I was in seventh heaven," he recalls. "The hour seemed to go by in six or seven minutes. The quiet of meditation is too much for me. But this wasn't quiet. It was moving and dramatic."

We lose up to 25 percent of our intelligence under high stress.

That was several years ago, and Reinach, who refers to the experience as "meditation for the lazy," returns to Synchro-Energize occasionally for a recharge. "It's not an act of discipline," he says. "It's an act of true enjoyment. It's as absorbing as any movie, yet when I get up I feel well-rested, and my anxiety levels are down."

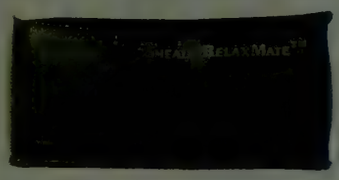
Still, trekking down to SoHo for a mind-fix can be inconvenient. And since the portable devices—the kind you can use at home whenever you like—have been selling so briskly, I decided to talk to somebody who uses one regularly. Ron Giannoni, general manager and vice president of a Chevrolet dealership near San Jose, Calif., says he is sold on a device called the IM-1. After 28 years in auto sales, Giannoni was put in charge of a dealership, and taking responsibility for the livelihood of 55 employees was keeping him up nights. He tried the standard relaxation techniques—exercise, massage, a few Scotches—without much success. One day, after suffering through what he calls "the worst massage I'd ever had," Giannoni noticed a sign on a nearby office offering stress reduction, and he walked in. The office belonged to psychologist Jill Ammon-Wexler, who suggested treatment involving high-tech gizmos with names like Lumatron and Mind's Eye.

Gianonni eventually settled on the IM-1. Donning a pair of customized wraparound sunglasses and a set of headphones hooked up to a small, Walkman-size console with an array of numbered buttons, he lay back and closed his eyes. As Ammon-Wexler pressed one of the buttons, Gianonni began to have an experience that sounded similar to my baptism-by-Synchro-Energizer. "The first time I used one of these machines, I was

Rating the Machines

While it's likely that over the next two or three years, cheaper, better machines will come on line, why wait? If you find the things indispensable, you can always upgrade later without having to listen to everyone else talk about how great *theirs* is. Think of it this way: the average machine costs about $300, the same as a few sessions of psychotherapy or ten bottles of good single-malt Scotch, and will last a lot longer. You can pay more if you want, but you may not need the top of the line model with features you'll never use. A basic unit with 10 or 15 preset programs and the option to customize those or add a few of your own is enough.

As of now, no one machine incorporates all the most desirable features, so choosing your device comes down to personal preference—and how you plan to use it. Larger units are more suited for the office or night table, smaller ones for travel or commuting. Tools For Exploration (800-456-9887) serves as a kind of clearing house for many different models, and will help you pick out a machine and tapes over the phone to suit your needs and level of interest. If you're not happy with it after a 30-day home trial, you can exchange it for another model (minus a 15% service charge—mention *FYI* and it's 10%). You can also ask for a printed catalog and a schedule of Megabrain seminars in major cities where, for a fee, you can sample all the machines in their catalogue.



The *FYI* short list goes like this:

MOST PORTABLE must be the Shealy RelaxMate, just a pair of wraparound shades powered by four AAA batteries. Limited to the alpha and theta ranges, the lights are not very bright, making them less entertaining than most other models. But they're great for wearing unobtrusively on the train or plane—no wires or console to fiddle with—or take them to the beach and fool your friends. At about $99-$149 (depending on where you buy), they're also the least expensive device, and come with a set of four audio tapes for relaxation and sleep enhancement. (800-877-5152.)

The pocket-size I.Q. Tutor+, is only slightly less portable than the RelaxMate, with seven sound and light programs and brighter lights for about $130. (Available through I.Q. International, 3800 North Rodney Parham, Clark Bldg., Little Rock, AR 72212; 501-225-6577.)

MOST PROGRAMMABLE is a solidly built but somewhat heavy unit called the MindGear PR-2. It has 25 preset programs and room for 10 more of your own devising. The sound quality is good, ease of operation is high, and the instructions are clearer than most. If you like the idea of creating your own programs, this may be your best bet. ($349 from MindGear, 4230 Del Rey Ave., Suite 542, Marina Del Rey, CA 90292; 213-854-8869.)

SMOOTHEST OPERATOR could be a toss-up between the DreamWave and the D.A.V.I.D. Paradise, each of which sells for about $700. However, the D.A.V.I.D. is probably overpriced, and its lights are not impressive, although its range of programs is. The DreamWave is hard to beat for simplicity of operation, but its cheaper spinoff, called the Shaman, is a steal at $195. Of all the machines that we tried out, the Shaman is the one most preferred (only drawback: it doesn't run on batteries). (D.A.V.I.D. Paradise from Comptronic Devices Ltd., 9860A 33rd Ave., Edmonton, Alberta, T6N 1C6; 403-450-3729. DreamWave and Shaman from AlphaLab, 1272 Alameda Ave., Salt Lake City, UT 84102; 801-532-6604.)

MULTUM IN PARVO AWARD goes to the MasterMind, a lightweight Walkman-size unit powered by a standard 9-volt battery, with 12 programs, good sound, and very comfortable, sturdy glasses. A lot of value for about $230. (Hammacher Schlemmer, 800-543-3366, or Synetic Systems, P.O. Box 95530, Seattle, WA 98145; 206-632-1722.)

extremely uptight—very, very tense," he recalls. "I lay there for what seemed like 10 or 15 minutes, although 30 or 40 minutes had passed. And when I got up, I felt like I'd just slept for eight hours. I was completely rejuvenated, and felt like I could go whip the world."

Corporations are beginning to see the possibilities, too. The customer services department of Pacific Gas & Electric in San Francisco makes Sychro-Energizers available to employees during their lunch breaks, and the employees love it. "It was a little bizarre-looking," manager Bob Mole says of his first glimpse of the machine. "Adults have a 'well, this is silly' attitude," he adds with a laugh. "But once you get the goggles on and relax, you really start to reap the benefits. My anxiety over getting into it went away after the first session, because I found it enjoyable and relaxing." Maybe "enjoyable" is the key word, since the entertainment value of the machines (what Ammon-Wexler calls their "psychedelic toy" aspect) entices users to stick with them long enough to achieve "definite reductions in pulse rate, blood pressure and things of that sort," according to Mole.

Clinical research tends to support that claim, although the hard scientific work—double-blind studies over a number of years—have yet to be completed. Even some of the machines' distributors have voiced reservations. Volker Risto, president of Transformation Technologies of Panorama City, Calif., recently noted that their "modern applications as nirvana machines" have yet to be proven. "They are very useful for stress reduction, relaxation...and facilitating accelerated learning," Risto said. "But I've been using these machines for hundreds of hours and I have yet to see any visions or revelations..."

Okay, we'll pass on the visions for now. But just how do the devices do what they do? We know that brainwave activity occurs in four major frequency ranges, from 0 to 32-plus cycles per second, or Hertz (Hz). Although all four sets of frequencies are active in the brain at any given time, one set is typically dominant: beta (normal waking consciousness), alpha (relaxed, creative states), theta (the "twilight learning" stage, threshold to sleep), and delta (deep sleep or unconsciousness). Information about these brainwave states is still incomplete, but scientists agree that spending at least some conscious time each day in the alpha or theta range is enormously helpful for the mind and body. This type of deep relaxation tends to lower blood pressure, reduce certain risks of heart disease, promote clearer and more creative thinking and better sleep patterns, and lessen reliance on coffee, alcohol and prescription drugs.

But the more stress you're under, the less likely you'll be to reach and remain in these states—or to perform well in general. According to Ammon-Wexler, we lose up to 25% of our intelligence under high stress. "Ever try to find your car keys when you're in a hurry?" she asks. "Or your wallet?"

"I felt like I could go whip the world."

Researchers have also shown that major insights are more likely to take place when brainwaves are mostly in alpha and theta. Their lower frequency and higher amplitude tend to "shake things up," which is why inventors like Edison got some of their best ideas following catnaps or in dreams. But since it's not easy to summon up a revealing dream on demand, the most effective method for entering these states has traditionally been the arduous path required by various kinds of meditation. Most executives, though, shy away from squeezing in full-lotus chanting sessions between board meetings and racquetball. Even simplified, secular techniques like the "relaxation response" developed by Dr. Herbert Benson of Harvard Medical School have proven elusive to many. And biofeedback requires wiring your scalp with electrodes, which can leave your hair looking like Bart Simpson on a bad day.

But recent evidence indicates that sound and light machines can get you into alpha and theta quickly, and without tears. You don't even have to learn a mantra. The trick is thought to be "brainwave entrainment," or altering the dominant brainwave frequency by having it vibrate sympathetically to an external sound and/or light source. Entrainment may date back to the Stone Age, when shamans and medicine men used flickering firelight and tribal drumming to create monotonous rhythms and draw the mind into deep trance states. In Europe, classical music from plainchant to Prokofiev served a similar function. Today, the slow movements of Baroque concerti are used by many learning and memory experts to enhance recall of material.

And scientists and clinicians have proven that if you can entrain to theta frequencies, you will be more open

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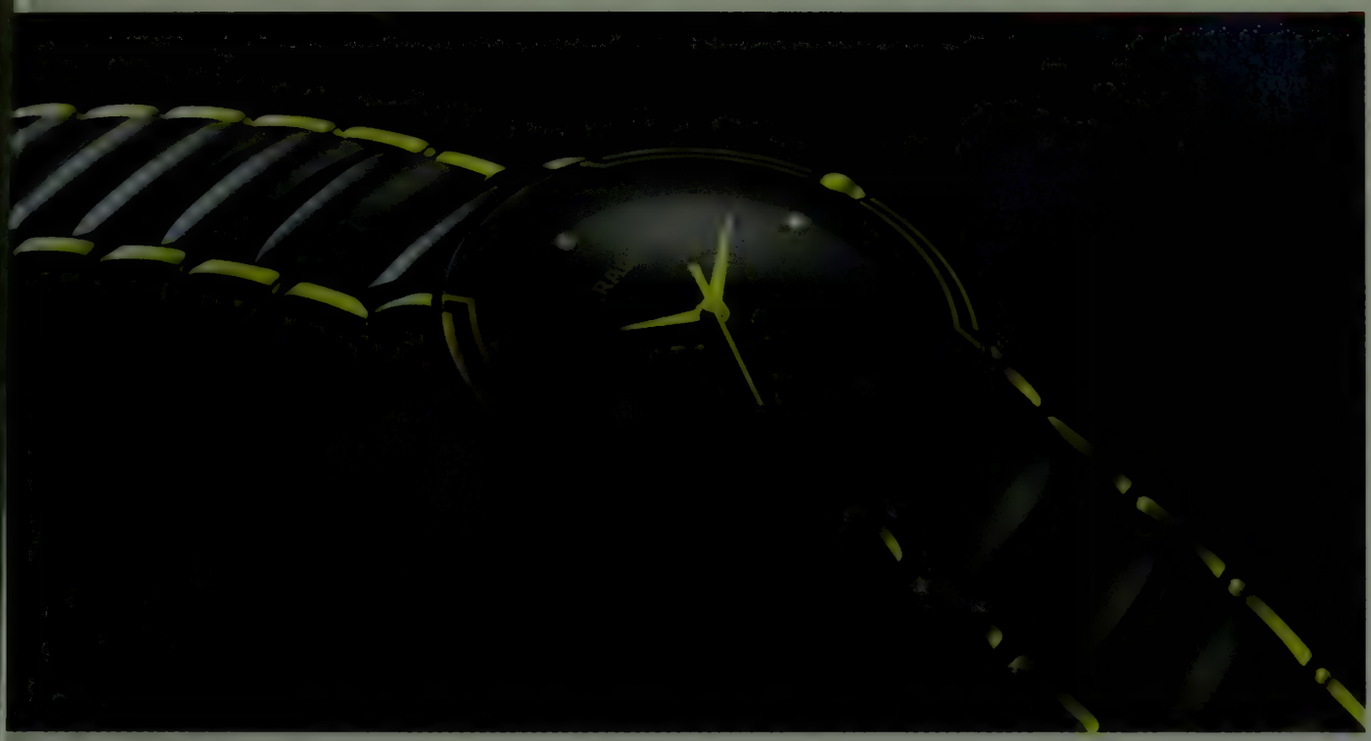

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to learning new material or accepting the affirmations and advice offered by a huge range of self-improvement and learning tapes now on the market. Some doctors are even using the machines to help overcome substance abuse and reduce chronic pain.

But without a large body of definitive scientific studies, how can we be sure? Gerry Steinberg, an M.D. who uses a variety of sound and light devices in his Massachusetts clinic for control of pain, admits "all the data aren't in yet." But, he adds, doctors often prescribe drugs and treatments that haven't yet gone through the scientific process of double-blind studies, relying instead on anecdotal information from patients and maybe a few controlled studies. "I don't think we have to wait," he says. "The machines do work."

Dr. George Fuller von Bozzay of the Biofeedback Institute of San Francisco agrees, adding that it's less about entrainment than entrancement. "People get entranced by the patterns they see," Fuller von Bozzay says, "especially in certain frequencies above alpha that are entrancing enough to allow them to relax deeply."

So is entrainment a prerequisite for relaxation? "Brainwaves aren't everything," Dr. Brucato of MindWorld adds. "Think about it as a hypnotic process." Once the machines get you into a deeply relaxed state, positive suggestion, learning, creative thinking and healing are all facilitated. But Brucato is quick to add that these machines are "an adjunct" to the healing process, "not Christ in a can or anything like that." (Because of FDA restrictions, manufacturers can't make specific medical claims. That hasn't stopped some of them from trying. A recent direct-mail ad for a set of relaxation-inducing subliminal tapes promises everything from "improvements in I.Q." to sensations "a hundred times more powerful than morphine." *Now* how much would you pay?)

Technicians are working to develop simplified devices that will be able to encode light and sound programs, music, and hypnotic suggestions on one standard audio cassette that you play on your Walkman, which plugs into a pair of goggles and headphones. Presto: you've got lights, beats, music, voices, and no bulky console. But according to Ammon-Wexler, the brain soon gets tired of the same program and stops entraining to it, so we'll still need machines that have a variety of preset programs plus the ability to create new ones. As we've already discovered with computers and VCRs, though, user-friendliness is next to godliness, making certain machines more attractive than others. So before you rush out and buy some instant relaxation, be sure to check out our sidebars carefully.

PETER OCCHIOGROSSO'S *most recent book is* Through The Labyrinth: The Search For Spiritual Transformation In Everyday Life *(Viking).*

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general sailor's superstition that the christening of a ship should not be performed by a married woman, as that would doom the ship to ill fate." Again, you'll have to use your own judgment when launching your own vessel. On the face of it, it seems that getting some woman other than your wife to do it wouldn't get the boat off to a very good start.

Some of the giant cruise ships use a bottle of Champagne called the "Sovereign," named after *Sovereign Of The Seas*, which it was first used to launch. The Sovereign bottle stands three feet high, weighs 77 pounds, holds 26 liters (about three cases of regular-sized bottles), and is worth about $8,000. Lauren Bacall recently used one to christen the 2,354-passenger *Monarch Of The Seas*. The bottle is net-encased, hoisted with an elaborate system of pulleys and ropes, and the sponsor just snips a cord, releasing the bottle to smash against the ship. It is documented in the *Guinness Book Of World Records* as the world's largest Champagne bottle.

The boat being christened should have a certain stature and integrity. Breaking a bottle of Champagne on a rubber raft, for instance, may be more trouble than it's worth. And of course if the bottle did finally break for some weird reason, it would probably puncture the raft, and deflate it, which defeats the whole purpose of the ceremony, which is to get your vessel off to a promising start. (Please refer to Figure Two.)

FIGURE TWO:
RUBBER RAFT BEFORE AND AFTER CHRISTENING WITH CHAMPAGNE BOTTLE

The decision as to what kind of Champagne to use when launching this vessel (good, or cheap) brings a man face-to-face with his own nature. Good, or cheap? Which is worse: to appear chintzy, or to waste fine wine? Drinking a good bottle of Champagne and then replacing the contents with cheap Champagne to use at the launching is a conceivable solution, I guess. But if that's the way your mind works (I'm sure it isn't), you deserve the problems you'd face: you'd have to do it surreptitiously—using funnels, for crying out loud—and I'd think you'd find that getting Champagne back into a bottle is at least as difficult as getting a genie back in.

Clearly, the Champagne that's in the bottle that's broken is going to be "wasted"—in that no one is going to get to drink it. The Champagne is cast on the ground like Onan's seed, and we know that Jehovah frowned on that. But one fancies that the gods of yachting are a more elegant and carefree lot, willing to see seed, Champagne or whatever spilt all over the place, what the hell, let's go sailing. Following the same line of reasoning (if that is the right word in a matter of this sort) we can conclude that the gods of the sea have discriminating palates and are not easily deceived. (Kindly refer to Figure Three.)

FIGURE THREE:

Most launchings now take place at a boatyard, where your vessel will be lifted from its cradle in canvas slings on a forklift and kept dangling just above the water, waiting to be christened. Boatyard people always seem to be busy, especially in the spring, so work out a date and exact time well in advance, and arrange a little party of friends and family. Serve Champagne, of course—even if it's just from a Styrofoam cooler. Ingratiate the forklift guy with some bubbly (not too much, of course), get him to poise the boat stern-first to the water; then poise your wife up on a pedestal (wooden crate), motivated to break the bottle on the bow.

The bottle should be wrapped in cheesecloth, or (better) inserted into a lady's nylon stocking, to prevent the sponsor and bystanders from being hit by flying glass. Uncharacteristically, I don't advise practice-in-advance in this matter of bottle-smashing. It is kind of hard to do, and if the bottle doesn't break the first time the sponsor may get increasingly embarrassed, frustrated, angry—all the ways wives get when things go wrong that aren't their idea in the first place. But it's a great experience when the bottle does explode.

FIGURE FOUR: AN EXAMPLE OF CARELESS CHRISTENING

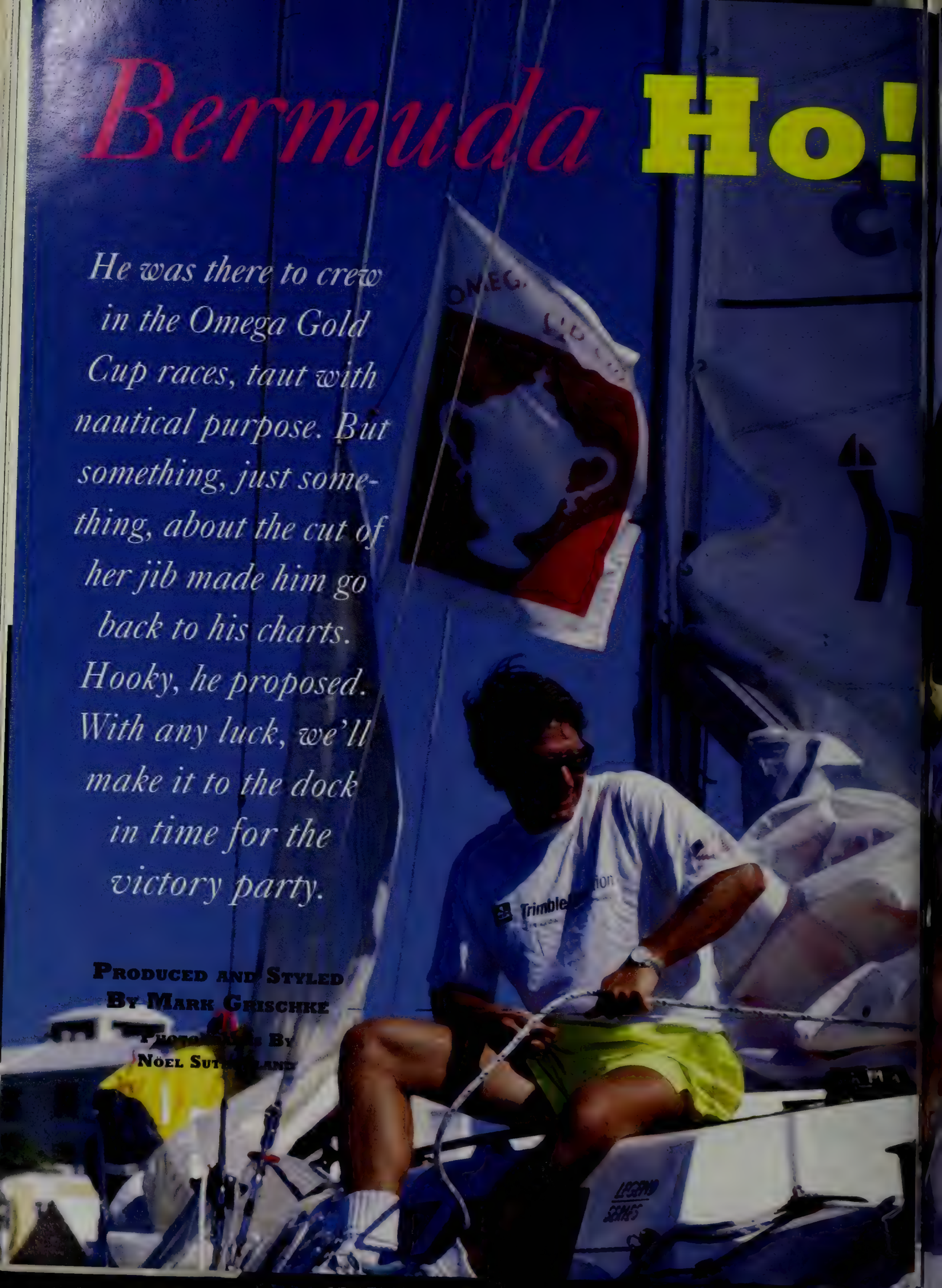
"I christen thee 'JOYCE'"

The launching party can be joyous, but when the magic moment approaches, everyone should fall silent so they can hear. At this point there should be no careless christening, for a careless christening may be worse than no christening at all. (Please have the kindness to refer to Figure Four.)

Don Vivant

Bermuda Ho!

He was there to crew in the Omega Gold Cup races, taut with nautical purpose. But something, just something, about the cut of her jib made him go back to his charts. Hooky, he proposed. With any luck, we'll make it to the dock in time for the victory party.



Produced and Styled By Mark Grischke

Photographs By Noel Sutherland

All prices approximate
[illegible] information, see [illegible]
[illegible] The jacket, $125, and [illegible] $70, by Nautica. [illegible] Navy shirt by the [illegible] Company, $21 [illegible] CWO deckshoes by [illegible] Top Siders, $95. Rey [illegible] Chuckwagon II sunglasses [illegible] by Ranson & Lomb [illegible] Automatic [illegible] by Citizen, $1,250. Fire [illegible] by Timex, $200. Watch by [illegible] Moser Int'nat'l [illegible] USA, $250. Luggage by [illegible] for Commander USA [illegible] Champion Oxfords by [illegible], $20. Mars Mr. Linden "Kelley" sunglasses by [illegible], $80. Silk scarf by [illegible], $125. For information about the Chivas Gold Cup [illegible] tournament, contact Alys [illegible] Lankenheim at 906-76[illegible] [illegible] ext. 4412.

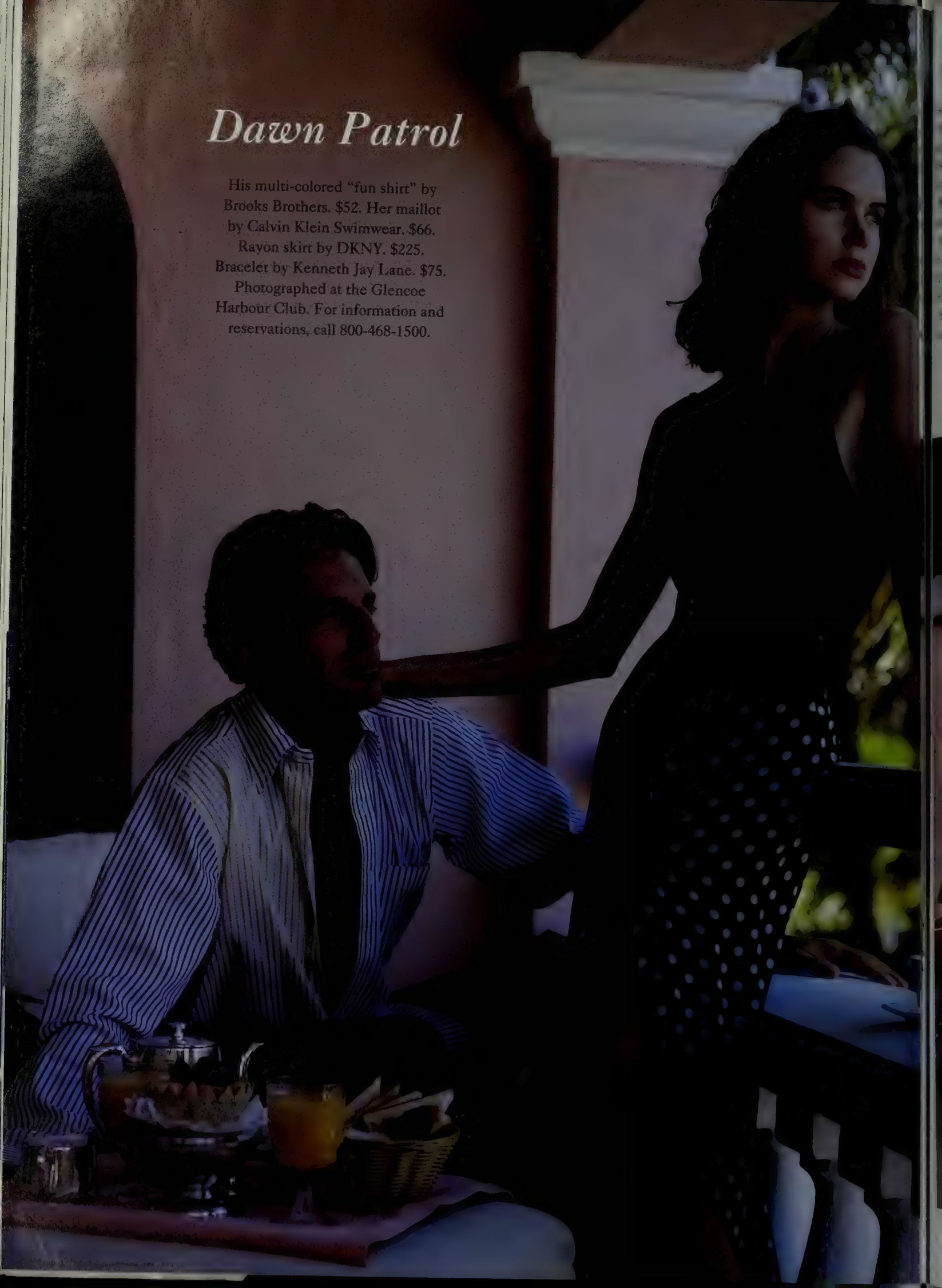
[illegible] Aurora for [illegible]

Strong Suit

His nylon trunks by Nautica. $39. Tech racer running shoe by Adidas. $59.95. Ray-Ban sunglasses by Bausch & Lomb. $85. Chambray baseball cap by Pendleton. $12. Her maillot by Léonard. $550. Sandals by Manolo Blahnik. $385. Earrings by Kenneth Jay Lane. $55. Double beach towel by Hermès. $425.

His cotton suit, $695, shirt, $97.50, and silk tie by Polo/Ralph Lauren. White bucks by Ralph Lauren Footwear. $148. Sunglasses by Serengeti Eyewear for Corning Optics. $130. Her wool jacket, $382, skirt, $199,and silk blouse, $203, by Randy Kemper. Shoes by Manolo Blahnik. $435. Silk scarf by Gucci. $195. Mary McFadden "Hollywood" sunglasses by Renaissance. $65. Earrings by Kenneth Jay Lane. $65. Photographed at the Glencoe Harbour Club.

Dinner At Eight

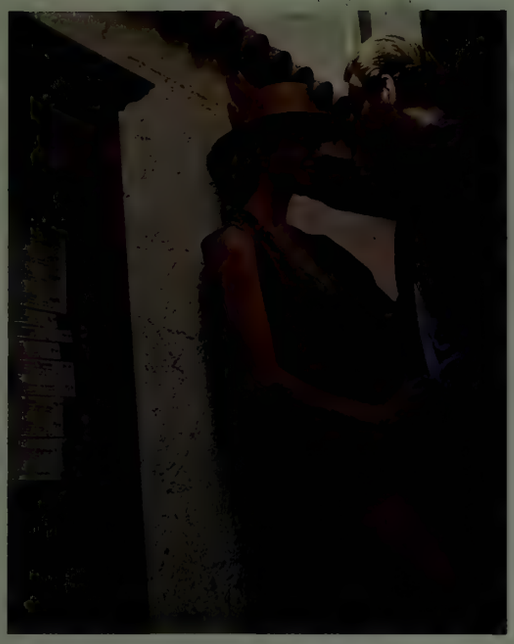


Dawn Patrol

His multi-colored "fun shirt" by Brooks Brothers. $52. Her maillot by Calvin Klein Swimwear. $66. Rayon skirt by DKNY. $225. Bracelet by Kenneth Jay Lane. $75. Photographed at the Glencoe Harbour Club. For information and reservations, call 800-468-1500.

Hidden Agenda

His linen jacket, $435, and pants, $175, by Andrew Fezza. Cotton T-shirt by Calvin Klein Sport. $34. Woven leather belt by Ermenegildo Zegna. $100. Her cotton jacket, $295, camisole bodysuit, $80, silk vest, $145, stretch mini, $145, belt, $85, and straw fedora, $65, all by DKNY. Silk scarf by Gucci. $195. Earrings by Yves Saint Laurent Accessories. $98.



Style On Tap

His jacket by Ermenegildo Zegna. $400. Polo shirt by Lacoste. $42. Shorts by Calvin Klein Sport. $55. Belt by Brooks Brothers. $25. Nubuc shoes by Walk-Over. $110. Sunglasses by Serengeti Eyewear for Corning Optics. $130. Her cotton/Lycra bodysuit, $48, and rayon wrap skirt, $66, by Guess?. Shoes by DKNY. Earrings by St. John. $65. Photographed at the Glencoe Harbour Club.

Start It Up

His wool dinner jacket, $950, trousers, $295, cotton dress shirt, $118, silk bow tie and cummerbund, by Polo/Ralph Lauren. Black dress socks by Polo Hosiery. $20. Tuxedo pumps by Ralph Lauren Footwear. $280. Her beaded lace slip dress by Badgley Mischka. $1,940. Shoes by Stuart Weitzman. $150. Earrings, $298, and silk scarf, $595, by Yves Saint Laurent Accessories and Foulards.

Pool Cool

His terrycloth shirt by Tommy Hilfiger. $88. Batik-print swimsuit by Gottex. $50. Her leggings by KORS for Compagnia USA. $100. Underwire maillot by Anne Cole Collection. $60. Beaded shoes by Stuart Weitzman. $750. "Marilyn Monroe" sunglasses by Renaissance. $35. Cuff, $275, earrings, $120, and belt, $600, by Yves Saint Laurent Accessories. Photographed at the Glencoe Harbour Club.

His double-breasted navy blazer, $450, and cotton shirt, $110, by Gieves & Hawkes. Cotton trousers, by Bobby Jones. $140. Silk bow tie by Polo/Ralph Lauren. Suede loafers by Gucci. $275. Her cotton jacket, $379, and skirt, $169, by Randy Kemper. Maillot by Gottex. $92. Photographed at the Royal Bermuda Yacht Club.

Party Talk

Store Credits

Bermuda Ho!

His jacket and trunks by Nautica: jacket, Macy's, California and Jacobson's, Jackson, MI; trunks, Maison Blanche, Baton Rouge, and G. Fox, Hartford; both, Nautica Store, New York. *Shirt by J. Peterman Company*: to order, 800-231-7341. *Shoes by Sperry Top-Sider*: department and specialty stores nationwide. *Sunglasses by Ray-Ban*: all Saks Fifth Avenue, Neiman-Marcus, and Bloomingdale's stores. *Watch by Omega*: select Ben Bridge and Mayor's stores; and all Tourneau stores. *Her coat by Gottex*: Beach House of Naples, Naples, FL; and the Jerrie Shop, Cedarhurst, NY. *Shirt by Rebecca Moses 101*: Henri Bendel, New York; Meltlers, Sarasota, FL; and A'Marees, Newport Beach, CA. *Leggings by KORS*: Harry B's, Nashville. *Shoes by Keds*: department and specialty stores nationwide. *Sunglasses by Mary McFadden*: all Saks Fifth Avenue, Neiman-Marcus, and I. Magnin stores. *Scarf by Gucci*: all Gucci stores.

Strong Suit

His trunks by Nautica: Famous-Barr, St. Louis; Hecht Company, Washington, DC; and select Belk stores. *Shoes by Adidas*: running specialty stores nationwide. *Sunglasses by Ray-Ban*: all Macy's, Lord & Taylor, and Saks Fifth Avenue stores. *Cap by Pendleton*: Von Maur's, Iowa; the May Company, Ohio; and the Pendleton Shop, New Canaan, CT. *Her maillot by Léonard*: Martha, Palm Beach. *Sandals by Manolo Blahnik*: I. Magnin, San Francisco; Neiman-Marcus, Beverly Hills; and Bergdorf Goodman, New York. *Earrings by Kenneth Jay Lane*: Henri Bendel, New York; and all Kenneth Jay Lane boutiques. *Beach towel by Hermès*: all Hermès boutiques, or to order, 800-441-4488.

Dinner At Eight

His clothing by Polo/Ralph Lauren: suit, Polo/Ralph Lauren, Beverly Hills and Palo Alto; and Barneys, New York. Shirt, Polo/Ralph Lauren, Aspen, Beverly Hills, and Pittsburgh. Shoes, Polo/Ralph Lauren, New York and Beverly Hills. *Sunglasses by Serengeti*: all Sunmark, Sunsations, and Sunglass Hut stores. *Her jacket, skirt and blouse by Randy Kemper*: Oblio, New York; Henri Bendel, New York; and select Saks Fifth Avenue stores. *Shoes by Manolo Blahnik*: Manolo Blahnik, New York. *Scarf by Gucci*: all Gucci stores. *Sunglasses by Mary McFadden*: Bergdorf Goodman, New York; and all Neiman-Marcus and Nordstrom stores. *Earrings by Kenneth Jay Lane*: Henri Bendel, New York; and all Kenneth Jay Lane boutiques.

Dawn Patrol

His shirt by Brooks Brothers: all Brooks Brothers stores, or to order, 800-274-1815. *Her maillot by Calvin Klein*: Calvin Klein stores in Boston, Dallas, Palm Beach, Cleveland, and Costa Mesa. *Skirt by DKNY*: Macy's California; Macy's Northeast; and all I. Magnin stores. *Bracelet by Kenneth Jay Lane*: Henri Bendel, New York; and all Kenneth Jay Lane boutiques

Hidden Agenda

His jacket and pants by Andrew Fezza: jacket, Charivari, New York; and all Macy's stores; pants, Macy's California; and all I. Magnin stores; both, Mark Richards, Glencoe, IL. *T-shirt by Calvin Klein Sport*: Calvin Klein stores in Dallas and Boston; Saks Fifth Avenue New York; and all Bloomingdale' stores. *Belt by Ermenegildo Zegna*: Ultimo, Chicago; Louis, Boston; and Ermenegildo Zegna, New York. *Her clothing by DKNY*: jacket, Bergdorf Goodman, New York; and all I Magnin and Nordstrom stores. Camisole, all Nordstrom stores. Vest. Bergdorf Goodman, New York; and all Dillard's and Bloomingdale's stores. Mini skirt, Bergdorf Goodman, New York; and all Bullock's and Dillard's stores. Belt, all Bloomingdale's and I. Magnin stores. Hat, all Bloomingdale's and Dillard's stores. *Scarf by Gucci*: all Gucci stores. *Earrings by Yves Saint Laurent*: Beaton's, Phoenix.

Style On Tap

His jacket by Ermenegildo Zegna: Ultimo, Chicago; Louis, Boston; and Ermenegildo Zegna, New York. *Shirt by Lacoste*: all Macy's Northeast, Dillard's and Bullock's stores. *Shorts by Calvin Klein Sport*: Calvin Klein stores, Dallas and Boston; Saks Fifth Avenue, New York; and all Bloomingdale's stores. *Belt by Brooks Brothers*: select Brooks Brothers stores. *Shoes by Walk-Over*: all Bullock's and select Dillard's stores. *Sunglasses by Serengeti*: all Sunmark, Sunsations and Sunglass Hut stores. *Her bodysuit and skirt by Guess?*: Gantos, Grand Rapids, MI; Foley's, Houston; and all Bloomingdale's stores. *Earrings by St. John*: all Saks Fifth Avenue and Neiman-Marcus stores; and all St. John boutiques.

Start It Up

His clothing, Polo/Ralph Lauren: jacket, Polo/Ralph Lauren, New York; and Saks Fifth Avenue, New York. Trousers, Polo/Ralph Lauren in Dallas, Pittsburgh, and Short Hills, NJ. Shirt, Polo/Ralph Lauren New York, andChicago,. Socks, Macy's, California; Bloomingdale's, New York; and Polo/Ralph Lauren nationwide. Shoes, Polo/Ralph Lauren, New York.

Her dress by Badgley Mischka: Bergdorf Goodman, New York; and all Saks Fifth Avenue and Neiman-Marcus stores. *Shoes by Stuart Weitzman*: I. Magnin, Beverly Hills; Halls, Kansas City, MO; and Saks Fifth Avenue, Palm Beach Gardens, FL. *Scarf and earrings by Yves Saint Laurent*: scarf, Bergdorf Goodman, New York; and select Saks Fifth Avenue and I. Magnin stores. Earrings, Marie Leavell, Dallas; and Yves Saint Laurent Rive Gauche, New York

Pool Cool

His shirt by Tommy Hilfiger: Hecht Company, Washington, DC; Lord & Taylor and Bloomingdale's, New York. *Swimsuit by Gottex*: all Bloomingdale's and Neiman-Marcus stores; and Loring Southhampton, Southhampton, NY. *Her maillot by Anne Cole Collection*: Dillard's, Little Rock; Canyon Beach, Santa Monica; and Lord & Taylor, New York. *Shoes by Stuart Weitzman*: Mirage Casino Hotel, Las Vegas; and Classic Shoes, Memphis. *Sunglasses by Renaissance*: all Macy's, Dayton-Hudson and Bullock's stores. *Jewelry by Yves Saint Laurent*: cuff, Yves Saint Laurent Accessories boutique, New York; and Daniel Foxx, Palm Desert, CA. Earrings, I. Magnin, San Francisco and Beverly Hills; and Galeries Lafayette, New York. Belt, Yves Saint Laurent Rive Gauche, New York.

Party Talk

His blazer and shirt by Gieves & Hawkes: Barneys, New York. *Pants by Bobby Jones*: all Saks Fifth Avenue and Neiman-Marcus stores. *Loafers by Gucci*: all Gucci stores. *Her jacket and skirt by Randy Kemper*: Balliet's, Oklahoma City; Polly Adams, Laredo, TX; and select Carol & Mary stores, Hawaii. *Maillot by Gottex*: Beach House of Naples, Naples, FL; and the Jerrie Shop, Cedarhurst, NY. *Earrings by Kenneth Jay Lane*: Henri Bendel, New York; and all Kenneth Jay Lane boutiques.

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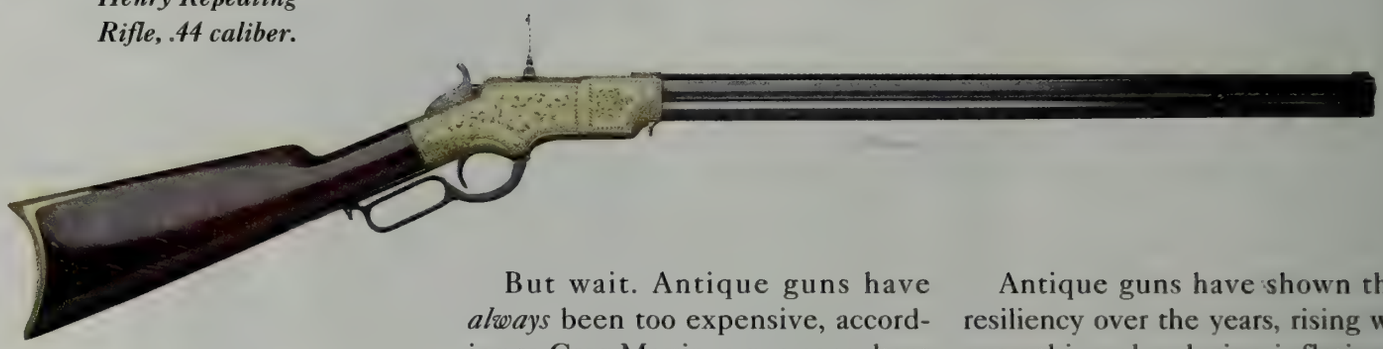
ON THE BLOCK

Caution: the antique firearms featured on the next several pages are expensive. How expensive? *Too* expensive.

Deluxe Presentation Henry Repeating Rifle, .44 caliber.



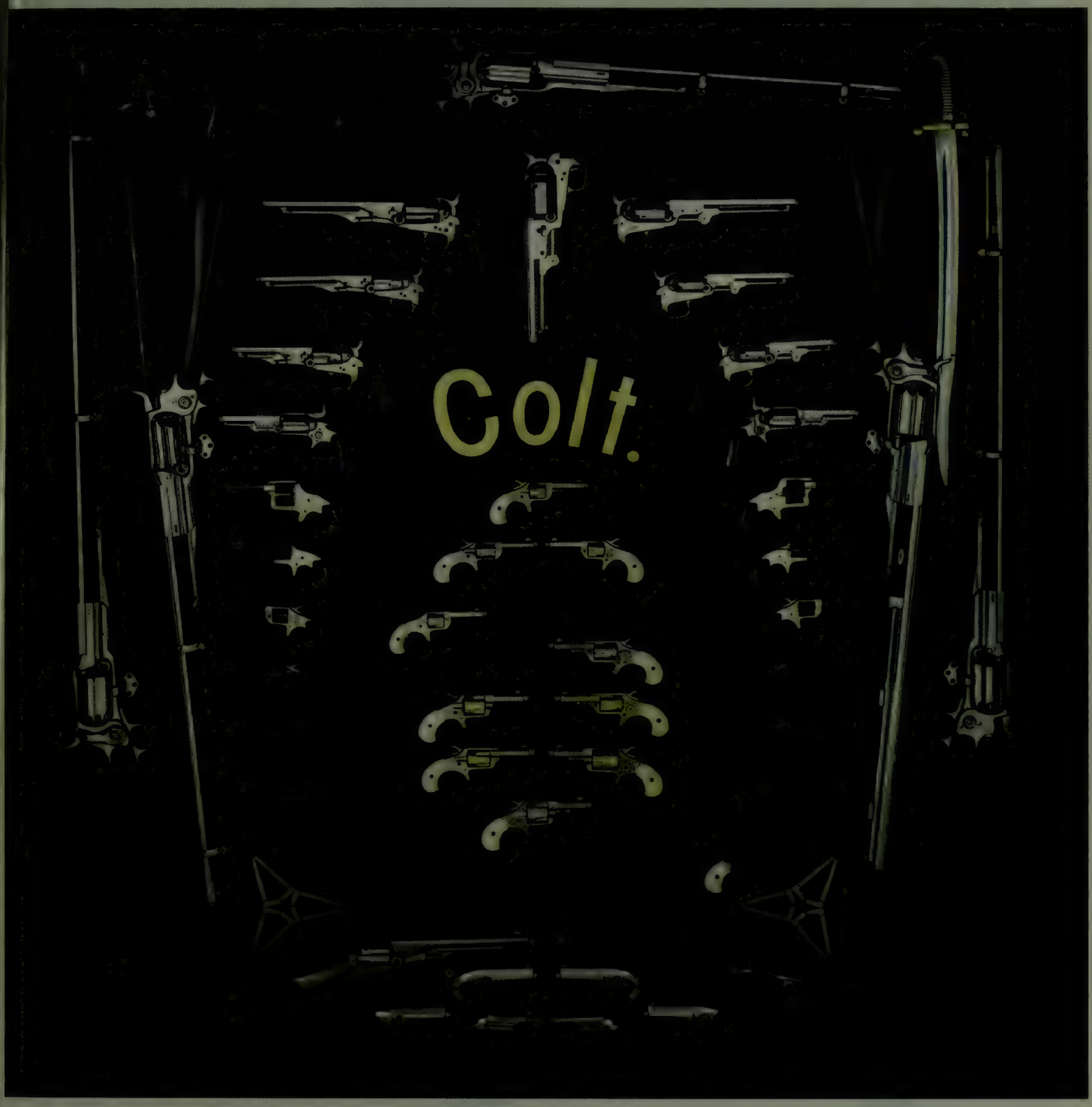
By Caroline Butler

But wait. Antique guns have *always* been too expensive, according to Greg Martin, a gun consultant to Butterfield & Butterfield, the San Francisco-based auction house, and quite a collector himself. "They were too expensive when I got started in 1952, and they're too expensive today. I've got a 1911 auction catalogue from Walpole bemoaning the fact that they were too expensive back then. They've always been cheaper in the past."

Antique guns have shown their resiliency over the years, rising with everything else during inflationary periods, but leveling off—rather than plunging—in periods of deflation. And guns didn't shoot the moon during the 1980s, in part because the ever-voracious Japanese aren't allowed to own them. The gun market has enjoyed increased exposure recently in the auction houses (B&B sold $7 million worth in 1991), resulting in some of the more spectacular price hikes.

The guns featured here are a few of the 125 very desirable firearms from the collection of Warren Anderson, the Australian tycoon and shopping center developer. Sixty of his master pieces will be up for sale, along with another 500 antique guns and 160 Bowie knives, in a no-reserve auction at Butterfield & Butterfield on March 23. (Contact Greg Martin, 415-861-7500, ext. 327.)

The balance of Anderson's collection will go sometime in July—including this unique **Colt Factory Monumental Display Board**. Made in 1877 for Schyler, Hartley & Graham, Colt's big New York distributors, it shows percussion-era Dragoon, Pocket, Navy, Army and Sidehammer arms alongside Derringer, Cloverleaf, Old Line, New Line and Single-action Army revolvers from the start of the cartridge era. Following Marcellus Hartley's purchase of the Remington Arms Co., the board was moved to Bridgeport, Conn. During World War II several attempts were made to melt its contents for scrap. But two Remington employees hauled it to the ladies restroom and placed it face to the wall where it remained, safely incognito, until after the war. With the cabinet (recently reconstructed from original 1876 drawings) it measures 11'4"x 6'4". Estimate: $400,000-$600,000.



Samuel Colt's first model.

Samuel Colt's First Model—The Paterson Revolver

Manufactured in Paterson, N.J., 1836-1842, this factory-engraved, silver-banded, ivory-gripped .34 caliber Colt Paterson Belt Model percussion revolver was the first model made by Colt. The extra 12" barrel is a rarity, and it comes in an unusual partitioned bevel lid case with pistol capper, combination loading tool, screwdriver, bullet mold, extra cylinder, charger and cleaning rod. For sale in March at an estimate of $200,000-$300,000.

Deluxe Presentation Model 1851 Percussion Colt Navy Revolver

Nuptial gifts just ain't what they used to be. In 1858 Samuel Colt presented this outfit as a wedding present to his nephew, H.A.G Pomeroy, who had designed Colt's South Meadow Armory in Hartford Conn., in 1855. The revolver is profusely engraved with foliate scroll on a granular ground, has select walnut stocks, blued finish with silver-plated fittings, and is set in a deluxe brass-bound hardwood case chock full of accessories, including the rare detachable shoulder stock and a Model 1855 sidehammer pistol. For sale in March at an estimate of $200,000-$300,000.

1851 Percussion Colt Navy Revolver.

Fire!Fire!Fire!Fire! Fire!, etc... Colt 1893 Gatling Gun.

Colt Model 1893 Gatling Gun

This 1893 Gatling gun on its original tripod is in mint, unfired condition. Created by Dr. Gatling during the Civil War, the first Gatling guns could fire 1,000-1,500 shots per minute over a range of around three-quarters of a mile. These days mechanized guns using the Gatling system can fire 5,000-10,000 shots per minute. For sale in March at an estimate of $50,000-$75,000.

Deluxe Cased Pair Of Colt 3rd Model Dragoon Percussion 1848 Revolvers

This pair of Colt 3rd Model dragoons with fine ivory grips was lavishly engraved by Gustave Young, Colt's master engraver. The definitively non-Politically Correct engraving on the cylinder depicts mounted U.S. Dragoons blasting Indians with Colt six-shooters—standard on all Colt Dragoons (and certainly P.C. at the time). The coverage also includes a rare scroll

Non-P.C. Colt 3rd Model Dragoons.

and border decor on the cylinders, with dog and eagle motifs on both the frames and barrel lugs. The set is cased in a deluxe rosewood case with brass-bound corners and all accessories. For sale in July at an estimate of $200,000-$400,000.

Smith & Wesson Russian New Model Navy No. 3 Double-Action Revolver, .44 Russian Caliber, 1880-1890

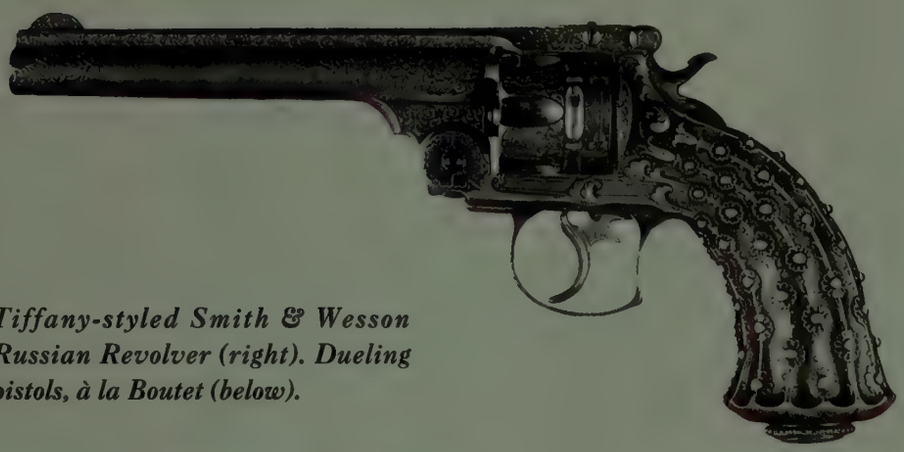
Stamped "Tiffany & Co. N.Y. No. 2098", the 6½" barrel and cylinder of this revolver are etched in floral scrolls, the sterling silver grip is inlaid with 68 pieces of turquoise, while the butt set is inlaid with lapis. Only six Tiffany-gripped Smith & Wessons are known to exist, and this is the only example outside Russia. The gun is believed to have been presented to the Czar in order to obtain a government contract for Smith & Wesson. (Bribes had more class back then.) For sale in March at an estimate of $50,000-$75,000. (By the way, Tiffany still does specialty engravings for gun stocks.)

Deluxe Presentation Henry Repeating Rifle, .44 Caliber

With its 15-shot magazine, the Henry repeating rifle, named for its inventor B. Tyler Henry, was one of the more devastating engines of death to come out of the Civil War. The Henry later evolved into the Winchester rifle. This particular rifle was presented in August 1864 by Mr. Henry to James H. Conklin, who was instrumental in the inventor's dealings with Oliver Winchester. With a 24" barrel, it is factory–engraved, gold-plated, decorated with scrolls, borders and florals, with deluxe burl-walnut stock. For sale in July at an estimate of $200,000-$300,000.

Cased Pair Of Flintlock Dueling Pistols By Nicholas Boutet, Versailles, c. 1800

Appointed "Directeur-Artiste à Versailles" by the Little Emperor himself, Boutet (1789-1816), was



Tiffany-styled Smith & Wesson Russian Revolver (right). Dueling pistols, à la Boutet (below).

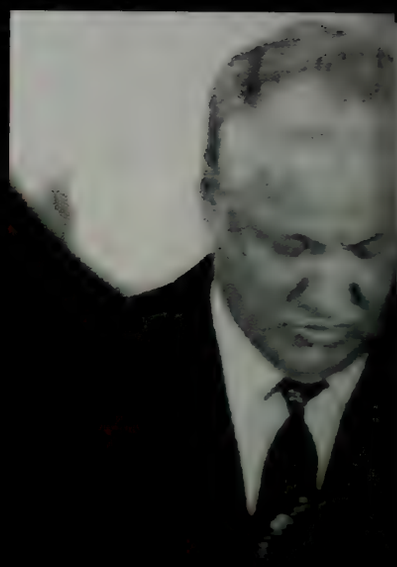
perhaps the finest gunmaker in France. The delicacy and brilliance of his work is clear in this set presented by Napoleon to General Ferino. Note the fine carving of the walnut stocks with motifs of vases, florals, garlands and gadroons, the chiseled locks, the chased steel trigger guards, and barrels wrought in diamond points, blued and emphasized in gold lines. For sale in March at an estimate of $40,000-$60,000.

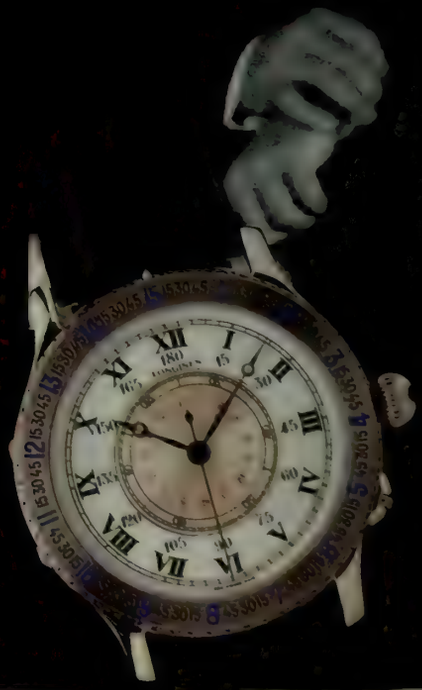
CAROLINE BUTLER *covers regional auctions for* Forbes FYI.

YIKES,

Look At The Time!

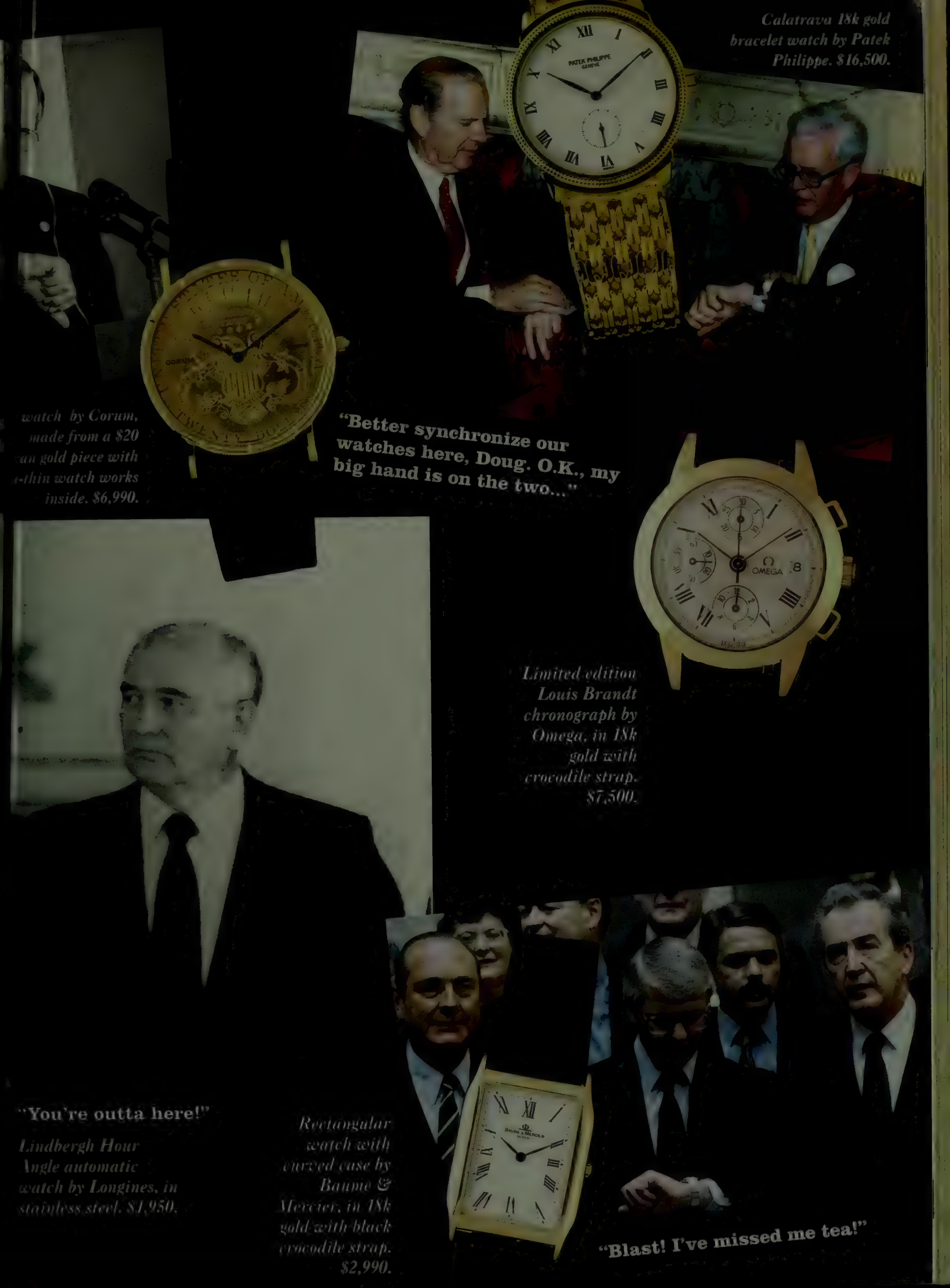
"Glasnost, schmaznost, can we pick it up a little here, Mike?"





TIME WAS, glancing at one's watch in company was considered, well, rude. No longer, apparently, especially if you're a global heavyweight. So when you want to send a signal, what better way than with a smart-looking watch around your wrist?

FYI



Calatrava 18k gold bracelet watch by Patek Philippe. $16,500.

watch by Corum, made from a $20 gold piece with thin watch works inside. $6,990.

"Better synchronize our watches here, Doug. O.K., my big hand is on the two..."

Limited edition Louis Brandt chronograph by Omega, in 18k gold with crocodile strap. $7,500.

"You're outta here!"

Lindbergh Hour Angle automatic watch by Longines, in stainless steel. $1,950.

Rectangular watch with curved case by Baume & Mercier, in 18k gold with black crocodile strap. $2,990.

"Blast! I've missed me tea!"

"Time's up, Comandante!"

Water-resistant Super 2000 Chronograph by Tag Heuer, in steel with gold accents. $1,895.

"Oy, vey

Stainless steel, water-resistant Cougar watch by Cartier. $1,950.

"It's been real, King. Lemme know when you get to the coast, we'll do lunch.

Day-Date 18k gold watch from the Ultimate Timepiece collection by Harry Winston. $7,000.

Automatic 18k gold Géographique time zone watch by Jaeger-LeCoultre. $17,900.
"Let's see...that would make it 8 p.m. in Gdansk."
Florence Anatom with sapphire crystal and 24k gold trim, by Rado. $675.
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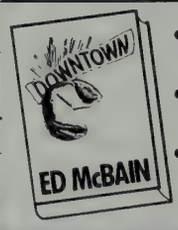

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–Constantin Stanislavsky

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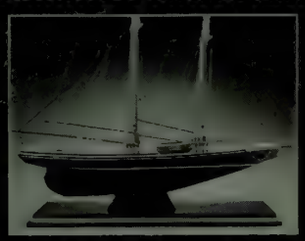

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DAN BROWN

From the book
Scoop
By Evelyn Waugh

William, hesitating between polo sticks and hockey sticks, chose six of each; they were removed to the work shop. Then Miss Barton led him through the departments of the enormous store. By the time she had finished with him, William had acquired a well, perhaps rather overfurnished tent, three months' rations, a collapsible canoe, a jointed flagstaff and Union Jack, a hand-pump and sterilizing plant, an astrolabe, six suits of tropical linen and a sou'wester, a camp operating table and set of surgical instruments, a portable humidor, guaranteed to preserve cigars in condition in the Red Sea, and a Christmas hamper complete with Santa Claus costume and a tripod mistletoe stand, and a cane for whacking snakes. Only anxiety about time brought an end to his marketing. At the last moment he added a coil of rope and a sheet of tin; then he left under the baleful stare of General Cruttwell.

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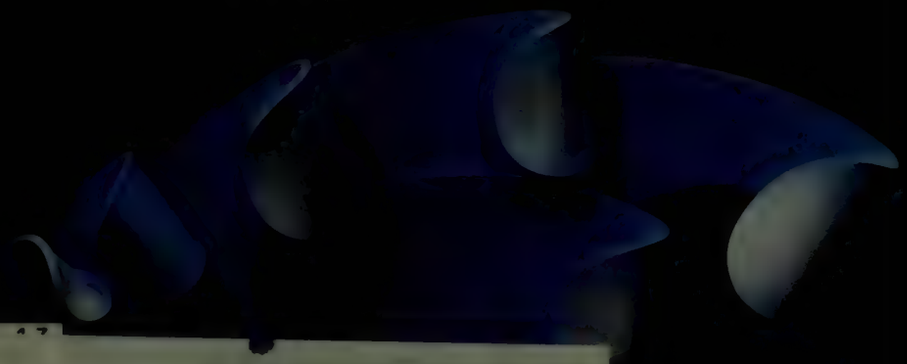

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INTRODUCING THE MOST EXTRAORDINARY NEW TIRE YOU'VE EVER SEEN.

AQUATRED. ONLY FROM GOODYEAR.

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DATE DUE

There has never been a tire quite like the Goodyear Aquatred.

The Aquatred "Contact Patch," the key to the tire's performance.

It is an all-season radial. But one with a major difference.

It has been designed to be the best wet-weather radial you have ever put on your car.

To achieve that breakthrough goal took new thinking, new technology.

The result is the Aquatred radial, which is a Goodyear exclusive. And a visibly different tire.

Aquatred works. In a way that you can feel and appreciate. In stopping, starting, cornering, steering. In every facet of wet-weather driving.

Yet, while you gain so much from Aquatred in the wet, you sacrifice absolutely nothing in the dry.

In fact, driving on the new Aquatred feels no different than driving on any other top-quality all-season radial. Until it rains. Then you'll know the difference.

As well as offering you outstanding wet traction, Aquatred also offers full year-round performance. In all kinds of weather.

And, as confirmation of its quality, Aquatred comes with a 60,000 mile tread-life warranty.

Best news of all, Aquatred is available in a range of popular sizes.

Including sizes to fit the ever-growing number of mini-vans.

Your Goodyear retailer has all the details. Or, for a free, informative, full-color brochure, write The Goodyear Tire & Rubber Company, P.O. Box 9197, Des Moines, IA 50301-8999.

The Goodyear Aquatred all-season radial. Technology makes it different. Wet traction makes it superior.

- *The deep Aqua-Channel evacuates water, which gives superior wet-weather traction.*
- *A new chemical ingredient, SIBR, contributes to wet-weather grip.*
- *Aquatred is made and designed so well, it comes with a 60,000 mile tread warranty.*

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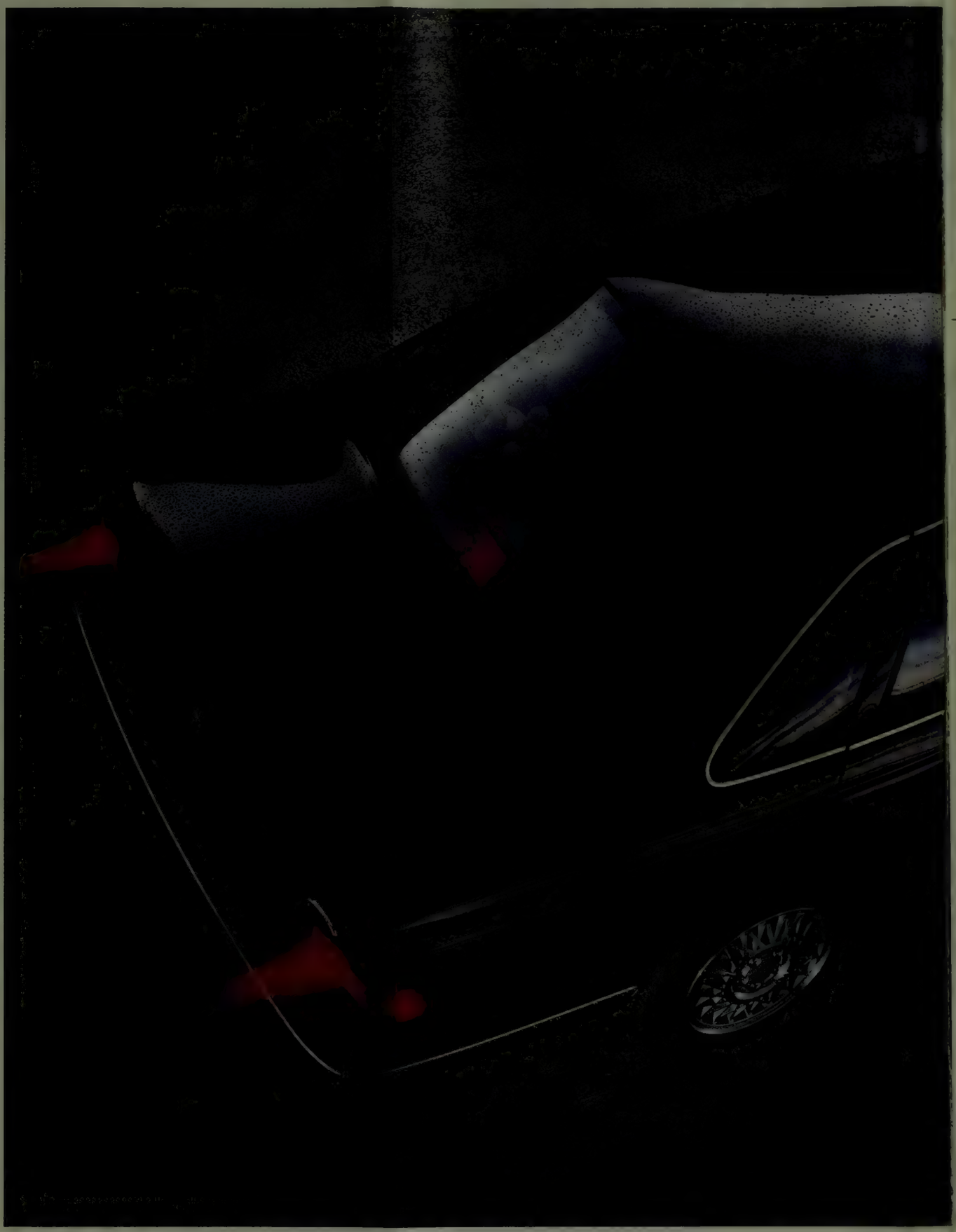

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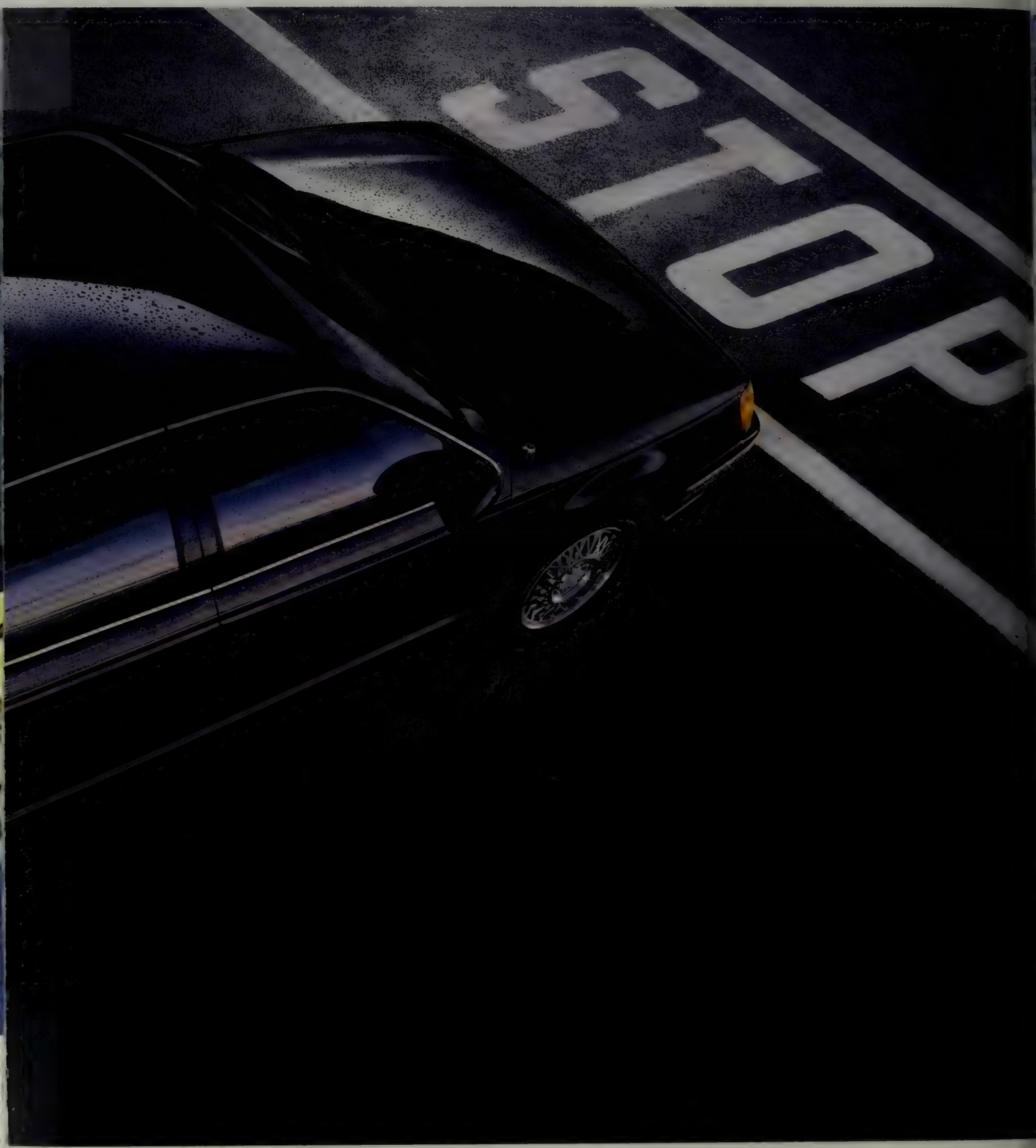

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Advisor	Value (mils)	Rank	% of Tot.	# of Deals
Merrill Lynch & Co.	14,184.0	1	26.8	17
Morgan Stanley	8,896.5	2	16.8	10
Goldman, Sachs	8,608.5	3	16.3	21
Lehman Brothers	8,502.8	4	16.1	18
First Boston/CSFB/CS	7,677.5	5	14.5	15
No Advisor	8,206.2		15.5	750
Totals-Top 5 Advisors	35,090.6		66.3	72
Totals-Deals with Advisors	44,683.7		84.5	242
Totals-All Deals	52,889.9		100.00	992

* Source: Securities Data Co. Based on Closed Transactions As published in Corporate Financing Week.

We'd like to thank our clients for their recognition of that leadership. We believe our competitive edge over other investment banks results from our strong capital base and the ability to innovate that we bring to every M&A transaction. For years, Merrill Lynch has dedicated resources, both human and capital, exclusively to the financial services industry. The years ahead will see the results of that commitment benefiting our clients to an ever-increasing degree.

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That handling, you'll be pleased to know, come from a four-wheel double-wishbone suspensio that's renowned for its ability to straighten hard curv soften hard bumps and satisfy the hardest of drive

Legend Sedan L

NJOYING TIME ON THE TIME THERE.

The Legend cabin offers equally innovative engi-neering. While available with such amenities as soft eather and fine wood, it is first and foremost ergo-nomic. From its controls, all positioned to reduce driver listraction, to a driver's seat that holds you firmly and comfortably in place. There are also air bags for both he driver and passenger,* and seat belt tensioners hat tighten the belts' grip upon impact. Just part of the Legend Sedan's comprehensive safety design that also includes anti-lock brakes.

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March 30, 1992
Volume 149
Number 7
FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048.

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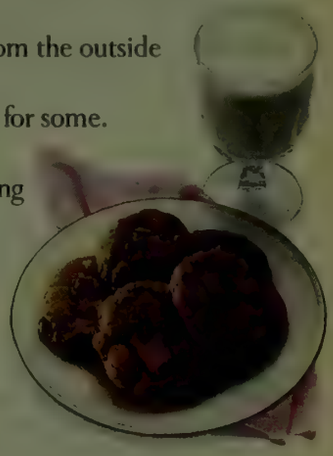

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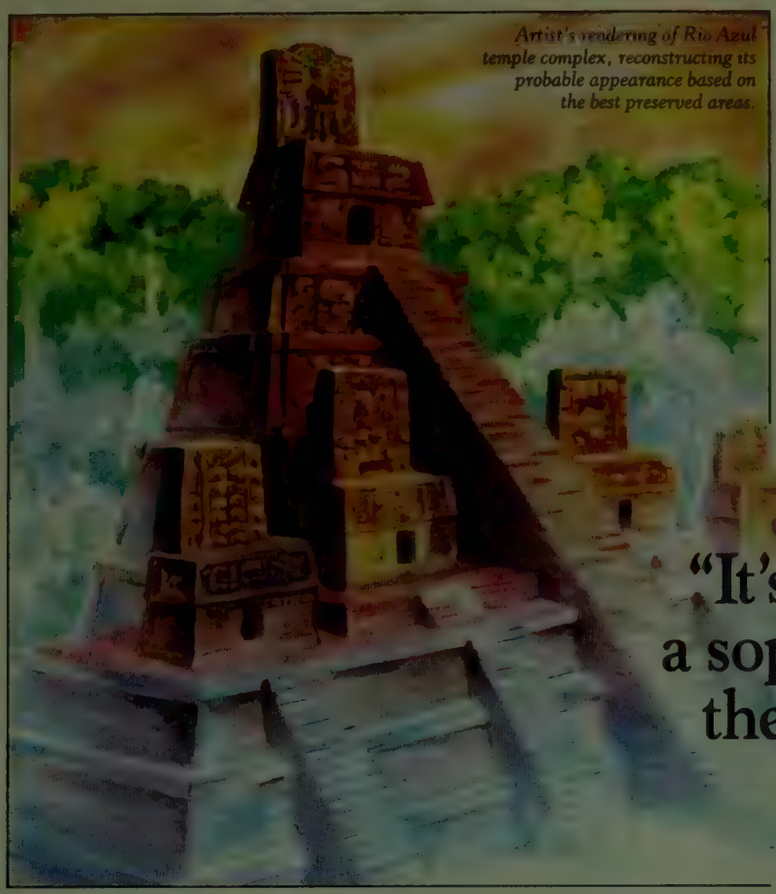


Artist's rendering of Rio Azul temple complex, reconstructing its probable appearance based on the best preserved areas.

drained whole swamps, while converting hundreds of acres of dense jungle into arable land. The Adams' team discovered murals and carved stone monuments that recorded the history of the royal families. They also uncovered majestic temples as well as stone courts where the Maya competed in ritual ball games.

"The Maya fascinate us because they were so advanced for their time and place," said Adams. "They had a sophisticated writing, mathematical, and astronomy system; and they were skilled artisans, farmers, and builders. In short, they created a complex society in an extremely hostile jungle environment."

"It's an amazing story of a sophisticated people with the will to tame a jungle."

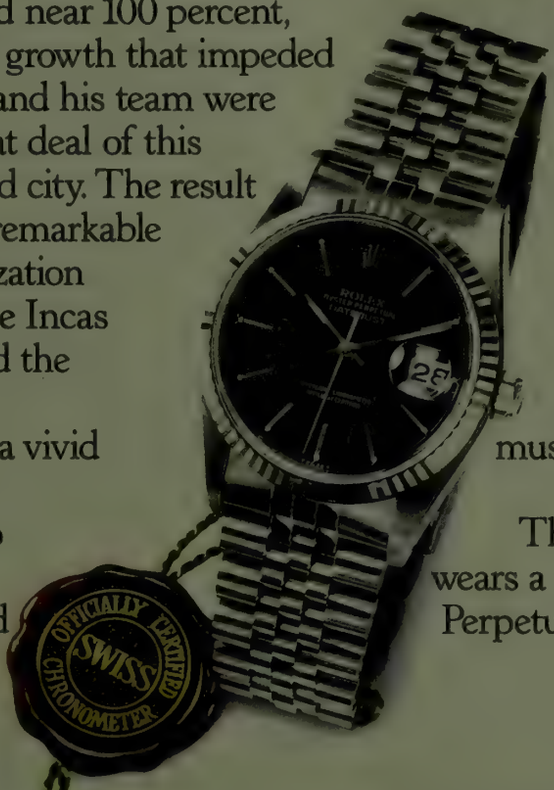
Dr. Richard Adams

In the remote jungle of the Petén region of Guatemala, an intrepid band of archaeologists, led by Dr. Richard Adams, have unearthed the ancient Maya city of Rio Azul. Despite temperatures that rarely fell below 100 degrees Fahrenheit, humidity that hovered near 100 percent, and the thick tropical growth that impeded their efforts, Adams and his team were able to excavate a great deal of this two-thousand-year-old city. The result is new insight into a remarkable pre-Columbian civilization that predates both the Incas of South America and the Aztecs of Mexico.

The dig yielded a vivid picture of a highly advanced people who channeled rivers, terraced hillsides, and

Dr. Richard Adams with a governor's tomb mural at Rio Azul.

Given its inhospitable climate and inaccessibility, Rio Azul is an archaeologist's nightmare. Resupply is so difficult, Dr. Richard Adams must rely on whatever equipment he takes with him on a dig. That's why it's not surprising he wears a rugged Rolex Oyster Perpetual timepiece.



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IN JUNE OF 1954 a slender, intense young woman named Ruth Meyer joined FORBES. As we all did in those days, she wore a number of hats. Ruth helped crop pictures, do layouts, check for accuracy and tended to a wide range of editorial and administrative tasks.

Early on she showed her talent and cool head. It was a hot non-air-conditioned summer night in July of 1956 and FORBES was closing its first-ever annual mutual fund survey. These were precomputer times, and the information had to be entered by hand and crunched on a couple of Friden electromechanical calculators. We were somewhat at risk, because in those days no one was ranking funds for general public consumption and any serious errors would discredit the survey. So, after the rest of the staff had gone home, Ruth and I decided to do a last-minute check, only to discover—ye gawds!—there was a misjudgment in the formula we were using. Working with desperation, we modified the formula and stayed up most of the night correcting—by hand—rankings on the nearly 200 mutual funds. The report came out almost error free, and we have been ranking funds regularly ever since.

Yuefei Zhang

Ruth Gruenberg

With her knack for dealing not only with crises like this but also with people and words, Ruth Gruenberg—as she later became—was the logical choice to organize and run our first fact-checking operation. She built it into the finest such operation in the country and into a kind of boot camp for training young writers and editors. As FORBES became bigger and the staff more specialized, Malcolm Forbes increasingly appropriated Ruth's talents to work with him on his Fact and Comment pages, and she continued in that role with Steve Forbes.

After having met almost 1,000 deadlines, Ruth—as Steve Forbes reported last issue—has retired. But I can't let her go without reporting that I am having a devil of a time getting used to the fact that she's no longer just downstairs and down the hall when I need wise counsel on a tough personnel or editorial problem.

James W. Michaels
Editor

They're frequent visitors to Japan, where he's ridden mountain bikes of his own design on Mount Fuji. They've wined and dined their way through Italy and enjoyed evenings at the theatre in London, during business trips to Europe. Back home, they get a workout just keeping up with his two young children. But most important, they've led millions of people all over the world to happier, healthier lives through his development of the sport of mountain biking.

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Tarnished Silverman

Bruce Asello

Television producer Fred Silverman
Down, up and down again.

FRED SILVERMAN, the independent producer who was booted out as head of NBC in 1981 after three years of abysmal ratings, roared back with such prime-time hits as the *Perry Mason* specials, *Matlock* and *In the Heat of the Night*. FORBES admired his formula: old stars in traditional roles, such as Raymond Burr as Perry Mason, Carroll O'Connor playing a sheriff in *Heat* and Andy Griffith as a lawyer in *Matlock (Mar. 6, 1989)*.

But advertisers are less impressed. Silverman's shows get solid ratings, but among the wrong viewers: They mostly attract viewers over the age of 55. Those people may have the most disposable income, but Madison Avenue covets the 18-to-49-year-olds, who are believed to be looser with a buck than their elders when it comes to purchasing mass-market items. These younger audiences tune in to shows like ABC's *Roseanne* and Fox Broadcasting's *Beverly Hills, 90210*.

Result: Last month NBC dropped *Heat* and *Matlock* from its fall lineup. *Jake and the Fat Man*, a Silverman show on CBS, is rumored to be a goner, too. Silverman thinks the networks are making a mistake. "You can't have 22 hours of *The Fresh Prince of Bel Air* or *Blossom*. You need some diversity," he says. "And there is an enormous amount of buying power in older Americans."

Etch a Mickey

IN 1987 FORBES praised Ohio Art Co. for avoiding fads and sticking to its venerable products, like the Etch A Sketch drawing screen and Chinese Checkers *(Mar. 23, 1987)*. But in 1989 and 1990 electronic toys like Nintendo videogames and Teenage Mutant Ninja Turtles action figures became all the rage; Ohio Art's hottest toy, the Animator, an electronic version of Etch A Sketch that could store multiple images and then play them back in rapid succession, fizzled out and is no longer manufactured. Over those two years the company lost nearly $3 million. The Amex-listed shares fell from 59 in 1987 to a low of 16 last year.

But with consumers watching their wallets and purses, Ohio Art's staples, most of which retail for under $20, are moving again. On Feb. 21, the day after the Bryan, Ohio-based firm announced 1991 earnings of $2.6 million ($5.05 a share) on sales of $49 million, the thinly traded stock shot up $18.50, closing at $50.50. The shares have settled around 48½.

Ohio Art's Martin and Bill Killgallon
Etching licensing deals.

Martin and William Killgallon, who run the company and whose families hold 72% of Ohio Art's 516,000 shares, are playing the rebound cautiously. Rather than take chances on new innovative products, they're putting their money into licensing agreements. Now in stores is the latest version of Etch A Sketch, this one

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T-Bills	$500,000	$540,000	$1,079,463	$2,330,479	$5,031,328
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–CAROL CROPPER

Nouveau housewares

COOKWARE and cutlery outfit General Housewares looked ready to take the world by storm as it emerged from the 981-82 recession (FORBES, *Apr. 11, 983*). Earnings were rising and Chairman Jack Muller was cutting osts. The company's NYSE-listed hares had more than doubled in less han a year, to 21.

But FORBES and other General Housewares optimists missed the fact hat the company had too much on its late. It was making everything from andles to table linens to institutional ookware. As the dollar strengthened, heap imports ate away at profits. In 985 the company lost nearly $3

Paul Saxton of General Housewares
The company is starting to cook again.

million, and the stock sank to a low of 6 in 1987.

But like many U.S. manufacturers *(see story, p. 84)*, General Housewares has regained its competitive edge. Muller sold ancillary businesses, using the $15 million in proceeds to cut debt (to 30% of capitalization). In 1990 he yielded the chief executive's job to Paul Saxton, 53, a former marketing executive at appliance maker Sunbeam Corp. who has rebuilt the company around its Magnalite cookware and Chicago Cutlery lines. These have cachet in the home gourmet cooking market, which is growing much faster than the housewares market in general. The stock was recently at 15. Most analysts think the company will earn $1.50 per share this year.

–CHRISTOPHER PALMERI

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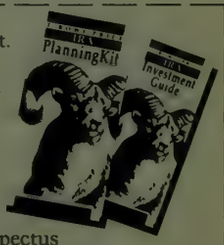

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Down the Mississippi down to New Orleans

LAS VEGAS yawned when riverboat gambling was approved by legislators in Illinois, Iowa and Mississippi. But now that it's headed down the Mississippi down to New Orleans, no one's yawning anymore. "New Orleans," says Hilton Hotels gaming division president John Giovenco, "ain't small potatoes."

Last July Louisiana passed a law allowing gambling on 15 boats, 6 of them in New Orleans. License applications will fly once Governor Edwin Edwards appoints a new riverboat gambling commission. Hilton will apply. About a dozen other companies—among them the Promus Cos., Bally's and Caesars World—have shown interest. Real estate developer Christopher Hemmeter, who made a killing in Hawaiian resorts, has been buying up New Orleans waterfront.

Chicago investor Sam Zell also hopes to participate through New Orleans-based Delta Queen Steamboat Co., which he controls. Louisiana law blocks its two riverboats from gambling. So Zell's negotiating with casino operators to manage somebody else's boat from the Delta Queen's dock.

Zell is already a big winner on Delta Queen. He took it private in 1986 for just $10 million, and has since taken out $24 million in dividends and debt forgiveness. Earlier this month he refloated the company. His 60% stake is currently worth $100 million.

–CHRISTOPHER PALMERI

We all scream for rice and beans

BEN COHEN, the Ben of politically correct ice cream maker Ben & Jerry's Homemade Inc., ought to be celebrating. The Waterbury, Vt.-based company he cofounded in 1977 recently reported record earnings—$3.7 million—on sales of $97 million. But Cohen apparently has come down with a bad case of the guilties. Word is that Cohen has quit as Ben & Jerry's chief executive officer (the company says he's taken a "sabbatical"). He's also said to have traded in his Saab for a pickup truck, and moved out of his suburban Burlington house into a downtown garage.

E.J. Camp/Outline

Jerry Greenfield and Ben Cohen, founders of Ben & Jerry's

Ben's given up double-dip cholesterol.

What's more, Cohen lately has gone to a rice and beans diet, apparently as a gesture of solidarity with the masses of the Third World. But some guilt trips are more affordable than others. Cohen, who often rails against the excesses of executive pay, last year paid himself just $83,000. But his Ben & Jerry's stock is worth $23 million.

–FLEMING MEEKS

How sweet the Muzak?

MARSHALL FIELD V, the Chicago department store heir, is bailing out of Muzak, the elevator music company. Poor Marshall; he's taking a bath. Field bought Muzak in 1986 for about $47 million and has since invested another $38 million or so in it. Now word is he's selling it to the partners at Wall Street's Lazard Frères & Co. for $60 million—and taking back a big note on the deal to boot.

Even so, one businessman Informer spoke to who considered buying Muzak says Lazard isn't exactly getting a steal. While he estimates Lazard is paying just six times cash flow for the operation, he also adds, "We think Field and his people have been grooming [Muzak's] cash flow for a year, in anticipation of a sale. We saw a lot of salary cuts."

But not to worry about the Lazard partners. Our source doubts they plan to be in Muzak for the long haul. "I'd guess they'll take it public as soon as they can," he says. It's that kind of market.

Ice age in Aspen

AS IN high-priced areas like Manhattan and Orange County, house prices in ritzy Aspen are down 15% from their 1989 peak—though they still average over $1 million, normally all cash, for a single-family home. Sales volume is down, with no buying surge

Ted Field's house in Aspen

Now a steal at $22 million?

in sight. Among the listings:

Troyer Trousdale, a development partnership, turned down the only bid so far, for a reported $15.5 million, for its 14,000-square-foot house The Ponds. It wants $18 million.

Hollywood producer and department store heir Frederick W. (Ted) Field wanted $25 million for his 16,000-square-foot home at the base of Aspen Mountain. It's been on and off the market for a year. Field has cut his asking price to $22 million.

Actor Michael Douglas and partner Neil Morgan are having no more luck with Wildcat Ranch, a 6,500-acre spread about 12 miles northwest of Aspen they paid $15 million for three years ago. Wildcat was subdivided into 12 lots that went on the market last summer for $3.5 million to $6 million each. To date, only two have sold, one to Douglas himself.

"People have the money," grouses one local Aspen broker. "They just are a little wary of spending it." (For a likely reason, see page 153.)

–JOHN H. TAYLOR

Like a Virgin

BRITISH entrepreneur Richard Branson's good news: In early March he agreed to sell his Virgin Music Group to giant Thorn EMI for $961 million. The cash is earmarked to bankroll the expansion of his airline, Virgin Atlantic Airways.

The bad news: Branson and Virgin Atlantic have been hit with a trademark infringement suit by St. Thomas-based Virgin Air, a U.S. company that's been flying in the Virgin Islands since 1970.

The suit was sparked last summer, when the American Virgin announced plans to expand service from the islands to Miami, a city to which Branson's Virgin Atlantic already flies. Branson threatened legal action to block the little airline. The U.S. carrier countered by suing over the rights to the Virgin name.

The key issue is likelihood of confusion, says Lawrence Friedman, a trademark litigator with Cleary, Gottlieb, Steen & Hamilton. "It's not a joke," he says.

Could it be that there is room for only one Virgin in Miami?

–PETER NEWCOMB

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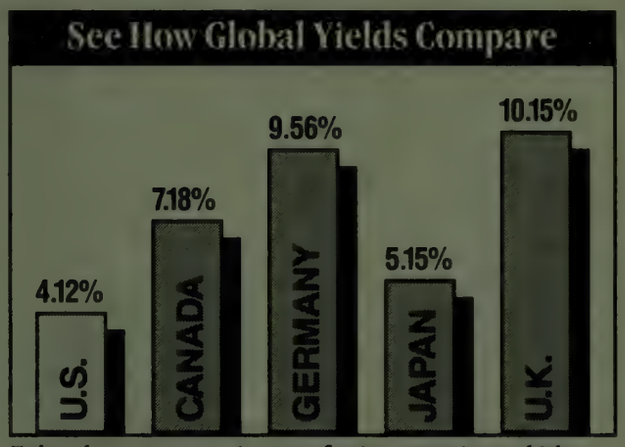

Today, short-term rates in many foreign countries are higher than in the U.S. This chart compares three-month Eurodeposit CD rates as of 2/19/92. Rates are not intended to reflect the yield or investments of the Fund. Source: Reuters.

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"Is there a middle manager in the house?,"
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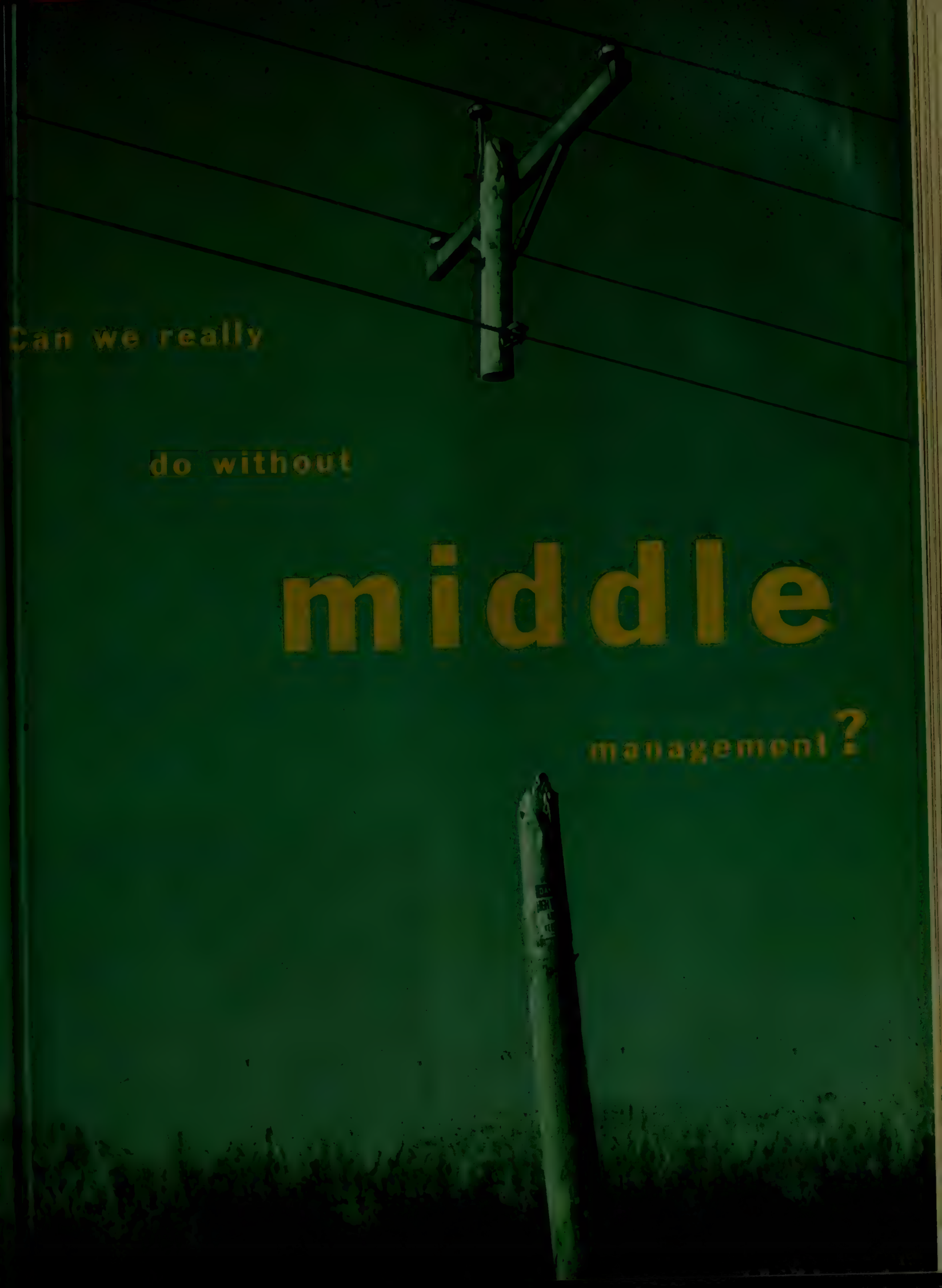
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Media thoughts

SIR: Re "Dow Jones: a belt, suspenders and elastic waistband" *(Feb. 3)*. Perhaps the lesson is that the best journalists make ineffective executives because by temperament they're observers rather than players.
–DAN ROTTENBERG
Philadelphia, Pa.

I—and my siblings—hope not!
–MSF JR.

SIR: For nearly 30 years in the publishing business I have followed the rule "don't knock the competition; it's bad for business."
–RICHARD J. ROYER
Publisher
Chesapeake Bay
Annapolis, Md.

Easy listenin'

SIR: Re "The Wal-Mart school of music" *(Mar. 2)*. To quote a country hit from a few years ago, "I was country when country wasn't cool." As a wool-suited, silk-tied professional, I am glad to see the rest of the world discover the music.
–JAMES SHRADER
Alton, Ill.

SIR: In contrast to celebrating the sentiments of rural tradition, this new McCountry elevates the sham and pretentious. Rather than extending the familiar hand of comfort, today's country is more like a French kiss from a stranger on the street.
–DAVID G. DIXON
Silver Spring, Md.

SIR: You cannot dance the Texas two-step to [Garth Brooks'] song "Unanswered Prayers." It is a slow, quiet song.
–EDWARD BABCOCK
Columbus, Ohio

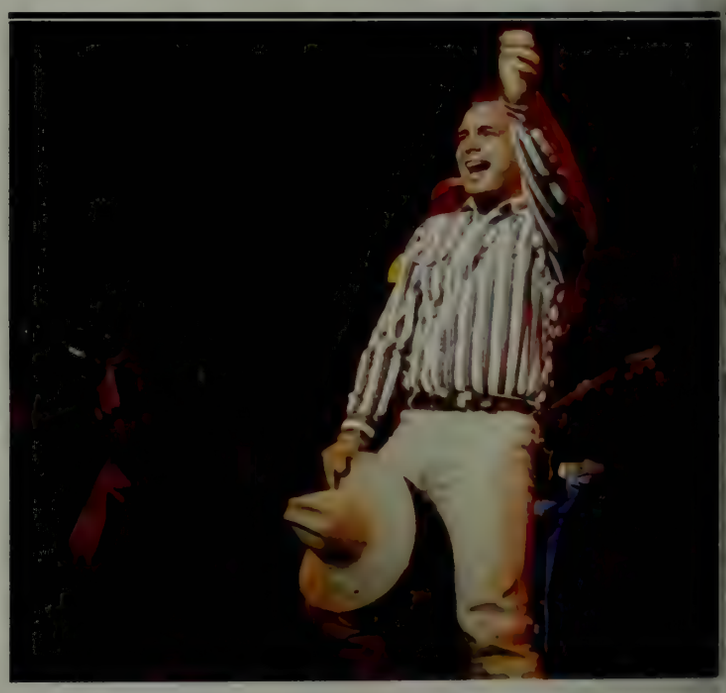
An Islamic jihad

SIR: Re "Moronic move by Algeria's military" *(Fact and Comment, Mar. 2)*. According to your scenario, the fundamentalists' stay in office would have been a short one. You are making the huge assumption that some other group would remove them from power through an overwhelming win in elections. Once they are in power, they are going to hold it no matter what, because for them it's a Holy War.
–RANDY SEFRIOUI
Beachwood, Ohio

Preserving property rights

SIR: If the government wants restrictions on private lands, let them pay for them with public funds. Perhaps the cost will curb their appetite ("The 'Takings' issue," *Mar. 2*).
–R.G. HUBER
Layton, N.J.

Country music singer Garth Brooks
Country's cool.



Sexy undies

SIR: Your reference to "cheap underwear" marketed under the rabbit head logo is inaccurate ("The rabbit grows up," *Feb. 17*). Research found satisfied customers who have purchased over 100 million pairs of this high-quality product over the last 12 years at "inexpensive" prices.

–MICHAEL FITZGERALD
President, CEO
Wundies Industries
New York, N.Y.

Number two

SIR: Re "Business services & supplies" *(Jan. 6)*. Using total net income, the EDS five-year average return on equity (ROE) should be 33.6% with an overall ranking of 56th, compared with the 14.5% ROE and 487th ranking reported by FORBES. Within the business services industry, a ranking of 13th should be a ranking of 2nd.

–JOHN R. CASTLE JR.
Senior Vice President, Secretary
EDS
Dallas, Tex.

First things first

SIR: Re "Esperanto for accountants" *(Mar. 2)*. The International Accounting Standards Committee has yet to deal with a more important issue, the harmonization of international standards for internal control. Without a common set of rigorous standards for strong internal control, which is the underpinning for financial accounting practices, specific accounting standards promulgated by the IASC will not be effective in facilitating the growth of global financial markets.

–JONATHAN B. SCHIFF
Professor of Accounting
Fairleigh Dickinson University
Teaneck, N.J.

Buyout

SIR: MGIC was not an LBO *("Junk equity," Mar. 2)*. It was a cash purchase by Northwestern Mutual.

–EDWARD J. ZORE
Senior Vice President and Chief Investment Officer
Northwestern Mutual Life
Milwaukee, Wis.

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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

KEEPING RUSSIA'S ECONOMY FLAT ON THE GROUND

BORIS YELTSIN'S finance officials should ignore their U.S. counterparts. We have nothing useful to offer them on how to save their free-falling ruble and economy.

Latest example of our nonhelp: We are pushing Russia and other formerly communist countries in Europe to join the International Monetary Fund as a condition for getting Western aid. The IMF will hinder their recoveries, not speed them. IMF advice today is too often reminiscent of the way doctors treated patients a couple of centuries ago: They would bleed them. The IMF's mixture of inflationary devaluations, incentive-destroying tax increases and pain-inflicting, riot-producing, abrupt cutoffs of subsidies do the patient infinitely more harm than good. No amount of IMF cash could overcome its toxic prescriptions.

Tupper/Sipa

. . . I'll call you.

Argentina and Mexico both have made impressive progress in reviving their once-withered economies. Some of their pro growth policies were opposed by IMF officials. Russia et al. should send delegations to Mexico City and Buenos Aires.

They should also look up how Alexander Hamilton 200 years ago turned the worthless dollar into the world's premier currency: He did so by selling bonds that were, in effect, backed by proceeds from sales of public lands. Russia could do the same with such assets as its oilfields, gold mines, etc.

AND KICKING RUSSIA WHEN IT'S DOWN

STATE AND DEFENSE DEPARTMENT apparatchiks are pursuing a dumb, shortsighted, counterproductive policy concerning Americans' buying Russian technology. The President should promptly reverse it.

With the collapse of the Soviet Union, U.S. industries and government agencies have been making deals to buy Moscow's space technology and equipment at bargain-basement prices. Purchases could save us billions of dollars in development costs, keep Russian scientists from going off to work for tyrants such as Saddam Hussein or North Korea's Kim Il Sung, as well as give the Kremlin some badly needed hard currency.

U.S. MOVES TO BAR AMERICANS' BUYING SOVIET TECHNOLOGY

–New York Times

Yet State and Defense Department bureaucrats are blocking these sales. The rationale of these blockheads: Starve Russian space and military industries of cash, and they will decline so much that they will never again pose a threat to the U.S.

This reasoning is absurd. Our best, most lasting defense is to help implant a strong democracy in Russia. Democracies don't go to war against each other. This ban will no more stop a future authoritarian, dictatorial Kremlin from menacing us than the post-World War I treaty restrictions on German rearmament stopped Hitler from his buildup when he took power. Any damage we inflict upon Russia's former military industrial complex can easily be overcome when that country's economy revives, as it someday surely will. But Russkies will remember our mean-spirited attempt to kick them when they were down.

The U.S. and the West should aid Moscow in implementing four basic principles of economic growth: sound currency, low taxes, property rights and minimal bureaucratic interference in setting up and running new businesses. Democracy will sink roots only if we assist Russia in achieving economic growth.

President Nixon is right. We are doing way too little.

FAR-OUT—BUT DEFINITELY UNFLAKY—TAX IDEA

GUESS WHICH CANDIDATE has crafted the most novel, intriguing, sensible tax proposal? Not George Bush. Or Paul Tsongas. Or Patrick Buchanan.

But Jerry Brown.

Governor Moonbeam is proposing a true tax-simplification plan: a flat tax of 13% on all income, with deductions for charity and for mortgage interest payments and rents. The Social Security payroll tax would be abolished, although Social Security payments and unemployment benefits would be tax exempt. The corporate income tax

would be replaced by a 13% value-added tax. Other taxes would be eliminated, including levies on capital gains, estates, gasoline, etc. Companies would be permitted to expense capital purchases in the year they were made.

Brown's scheme is revenue neutral.

With taxes so simple and marginal tax rates so low, the economy would go off like a rocket. Growth would be so explosive that unemployed tax lawyers, tax preparers, tax accountants, tax lobbyists and IRS agents would quickly find infinitely more productive lines of work.

Robert Maas/Supa

If Brown ever made this the centerpiece of his campaign, and if he toned down his sometimes-too-shrill style and occasionally put on a necktie so that he didn't look like a defrocked priest, his candidacy would rapidly gain even more support.

PUGNACIOUS PAT IMPERILS PROSPECTS FOR PROSPERITY AND PEACE

IF YOU WANT to see what a Pat Buchanan presidency would actually mean, turn back the clock to the 1920s and 1930s. After World War I, we went isolationist, politically. In 1924, we virtually banned immigration to this country. In 1929-30, we enacted a sweeping protectionist trade bill.

These Buchananesque policies gave us a global depression, which enabled the Nazis to take power in Germany, which, in turn, made possible the Second World War.

Whenever the U.S. turns inward, forces of evil arise that end up costing us dearly in both treasure and blood. It is no coincidence that when the U.S. became semi-isolationist after the Vietnam War, the world saw a rapid rise in terrorism, the ascension of the Ayatollah in Iran, the aggression of Iraq, the seizure of power by communists in Nicaragua, Angola, Ethiopia and Mozambique, and the Soviet invasion of Afghanistan.

Fortunately for us and the world, most of Buchanan's support comes not because of his message but because a number of Republicans see him as a way to convey to the President their unhappiness over his approach to the economy.

THE DISASTER THAT DIDN'T HAPPEN

DOOMSAYERS HYSTERICALLY WARNED several years ago that if capital-rich Japan ceased financing U.S. budget deficits, American interest rates would soar, and our financial markets would collapse.

The flood of Japanese capital is now a barely perceptible trickle. Our budget deficit is at a record level.

Result: American capital markets are flourishing, and interest rates are at a 15-year low.

CAN'T PRESS FREEDOM OCCASIONALLY MEAN PRESS RESPONSIBILITY?

MEMBERS OF THE MEDIA should condemn an ugly incident that the Fourth Estate perpetuated in Oklahoma.

Last November police raided the apartment of the 19-year-old son of the state's governor and found a couple of marijuana pipes. The boy was arrested, but no trace of marijuana was found in his urine, nor was any found in his apartment. The police did discover a few seeds they suspected might be from marijuana weed.

Normally, the story would be a one-day wonder and then disappear until the case was finally adjudicated. Not in Oklahoma, however. The press treated the incident as if Governor Walters himself were the accused. The boy was followed daily by reporters. The police were no better, issuing periodic reports on their attempts to germinate those seeds. (They were finally determined not to be marijuana.)

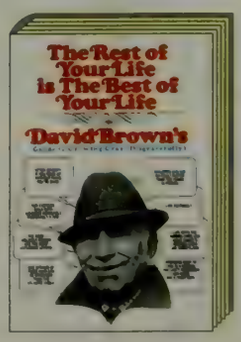
In December, the governor's son, who had been suffering from depression, took his own life.

Public officials are prey to being hounded by the media. But why on earth should their families suffer similar fates, particularly the children? Especially repugnant was the rationalization of one Oklahoma political reporter who piously declared, "You don't elect just a public figure, you elect a whole man and quite often you take his whole family."

Is it beyond the capacity of nonsupermarket journalists to exercise humane, decent judgment on who should be subject to a media wolf-pack attack and who shouldn't?

GROWING OLD WHILE STAYING YOUNG

The Rest of Your Life Is the Best of Your Life—by David Brown (Barricade Books Inc., $14.95). Beginning-to-gray, baby-boomer males, as well as their fathers, will find this wee volume of wit on staying young while growing old to be the next best thing to the Fountain of Youth. There are more helpful, humorous bits of advice and sage, pithy truisms here than in scores of other books many times its length. Brown's name will live as long as men don't die young, which—thanks to this book—they won't.



Excerpt: *Invest in a rental property? A stock certificate or 90-day Treasury bill does not call you up at three in the morning demanding a new toilet bowl.*

Excerpt: *If you're traveling with your spouse, avoid arguments on the way to the airport. For some reason relationships become fragile when you're about to take a trip.*

Excerpt: *Follow the advice of the Hollywood screenwriter Herman Mankiewicz, who counseled, "Never sleep with anyone who has more trouble or less money than you have."*

Excerpt: *Don't invest in companies where [you'd] be happy as an employee. They're probably giving away too much.*

Excerpt: *You're not beginning to forget things. You always did. You're simply beginning to notice it.*

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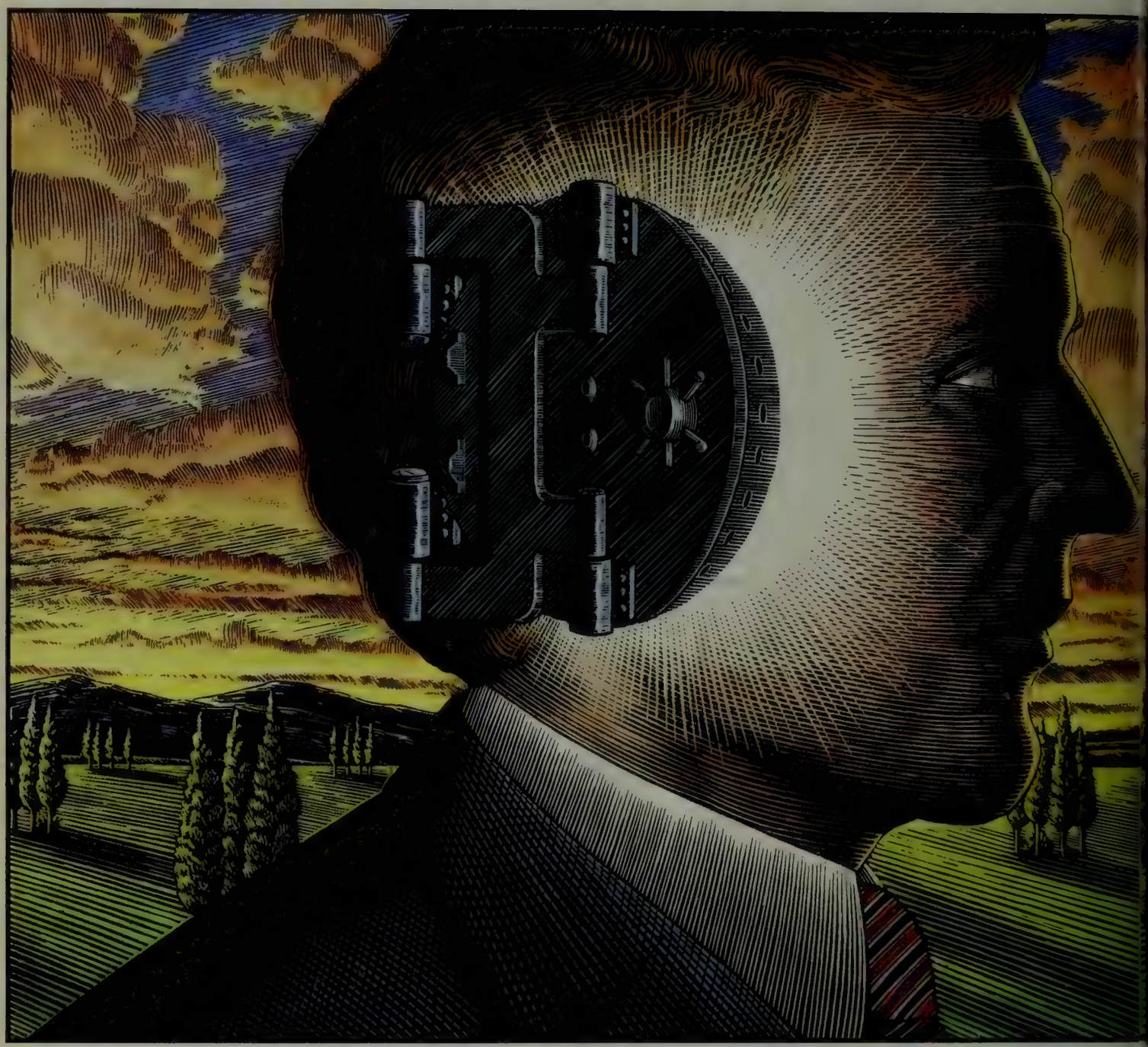

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Other Comments

Clothes Make the Man

"WHENEVER you're sitting across from some important person, always picture him sitting there in a suit of long underwear. That's the way I always operated in business."
–Joseph P. Kennedy, in *Friendly Advice,* by JON WINOKUR

Wolf in Sheep's Clothing

MANY CONSERVATIVE leaders who do not share Patrick Buchanan's values seem to take comfort from his candidacy's impact in moving Mr. Bush toward their views on the issues where they feel betrayed. They should ask themselves about the impact of the Buchanan challenge in areas they'd prefer to brush to one side. For example, Mr. Buchanan has taken credit for the President's decision to turn his trip to Japan into a festival of Japan-bashing corporate elitism led by Lee Iacocca.

Then there is the issue of aid to Boris Yeltsin and the Russian reformers who are trying to institute American-style democracy and capitalism. Is there anyone who doubts that the recent inaction of the Bush Administration on this front is dictated at least in part by the Buchanan campaign?

Under Ronald Reagan, conservatism advanced an optimistic populist vision for America and the world. Patrick Buchanan's isolationism, protectionism and nativism represent a profound departure from this vision and must be rejected.
–JEFFREY BELL, *New York Times*

E.(M.)T. Phone Home

BECAUSE OF the problems in New York City, they are considering changing their area code from 212 to 911.
–as told by ROBERT HALF,
Robert Half International Inc.

Damned If They Do . . .

THE GERMANS feel they can't win. Two years ago, as reunification neared, Germany was pictured donning Kaiser Wilhelm's spiked helmet. A year later, when the Gulf war began, Germany was a coward hiding behind a wad of deutsche marks. Now Germany is the aggressor again, having pressed the European Community to recognize Croatia and Slovenia, raising interest rates and insisting that America ante up more aid for the former Soviet republics.

The EC's largest and richest member, it seems, has decided it would rather be damned for doing.
–DAVID LAWDAY,
U.S. News & World Report

Money is more important when you grow older. Not so much for what it will buy as for the demons it can banish.
–DAVID BROWN,
The Rest of Your Life Is the Best of Your Life

And the Winner Is:

THE BEST IMPROMPTU speeches are those written well in advance.
–RUTH GORDON, actress,
in *The Quotable Quote Book*, by Merrit Malloy and Shauna Sorensen

Listen Up, U.S.A.!

WHEN PRESIDENT BUSH, accompanied by a high-level business delegation, visited Japan recently, he brought to the attention of the world the financial plight in which some of America's biggest corporations find themselves today.

It is almost ironical that this delegation should have visited a country which learned practically everything that it knows of business management from the Americans. Now the teacher, who has lost the art of competing, blames the pupil.
–ANTON RUPERT, CEO,
Rothmans International Plc.

How about a Bake Sale?

THE RSPCA protested after a trawlerman ate a bucket of live worms to raise money for a hospital charity. He hopes to raise £600.

An RSPCA spokeswoman said: "Eating live worms shows a total disregard for living things. We take a very dim view and just wish people could think of other ways to raise money."
–from the *Guardian*,
in *The New Yorker*

Drawing by Dana Fradon, © 1990 The New Yorker Magazine, Inc.

"My client has been convicted by the media, but I am confident that his conviction will be overturned on appeal by three major networks and the 'Times.' "

Just don't expect it to roar.

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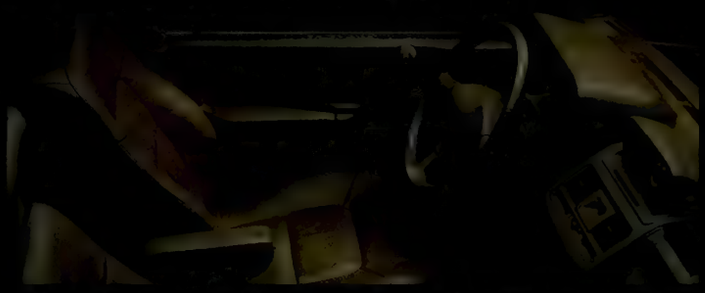

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

WHY LET GERMANY TAKE THE LEAD?

THE POLITICAL DYNAMICS of this year's presidential campaign are beginning to have an unfortunate effect on our foreign policy and, indeed, on our standing as the world's only superpower. Constant partisan sniping at the President for his "preoccupation with foreign policy" has led to the apparent shelving of foreign policy initiatives until after November.

There have been two recent examples of this. *First* is our reluctance to take any meaningful position on the various nationalities in Yugoslavia striving for independence from a largely communist-dominated central government.

For whatever reason, U.S. policy was scarcely lukewarm to urgent pleas from Croatia for help in its unequal struggle against the brutal and corrupt army of the central Yugoslav government. Much of Europe followed the same policy, only paying lip service to the concept of helping those struggling for their own freedom.

R. Bossu/Sygma

Foreign Minister Genscher and Chancellor Kohl: Germany looks beyond its borders.

But Germany, casting aside its hesitancy to enter controversial and high profile areas, formally recognized Croatia and Slovenia, virtually forcing creation of a U.N. peace force. By doing so, it won the friendship of at least two new countries and signaled to the world that it has far greater ambitions than merely being Europe's strongest economic power.

Second is our failure to take the lead, on behalf of our ally Japan, in securing the restoration of its northern islands. These were annexed by the old Soviet Union after the latter's belated entry into the war against Japan.

It has been said that Japan should help the new republics of the old Soviet Union. Japan, understandably, would be a great deal more receptive to doing so if its stolen islands were returned.

Many have criticized our seeming reluctance to help the new republics that emerged from the ashes of the old Soviet Union. At first this was attributed to our strange attachment to Gorbachev and our unwillingness to do anything that might offend him. But this reluctance has continued, long after Gorbachev's departure. We took no effective action to impress upon the republics that they had an obligation to repair another old Soviet aggression.

Enter Germany with an offer to "mediate" the dispute. Translated that means Germany will tell Russia and the other republics needing German aid that they must return the northern islands to Japan. Not surprisingly, this will give the Germans great credit with Japan at a time when Germany is already forming strong ties with its old WWII ally. And Russia and the other republics will benefit from the flow of Japanese funds that will come their way once Japan's islands are returned.

What is even more significant, puzzling and worrisome is that in both cases, the U.S. has let Germany seize the initiative. We are mired in a presidential election in which candidates who discuss foreign matters are considered vulnerable. Consequently, our Administration is hesitant to assume the leadership role that our own interests, as well as those of other countries, require. That creates a vacuum into which Germany, despite all its problems of trying to absorb a ruined East Germany, is flowing.

If we remain paralyzed and unable to act decisively on foreign policy issues because we fear offending some voters or because it is concluded that "stability" (fear of upsetting the staus quo—no matter how bad) is our best goal, we will indeed forfeit any claim to world leadership. It is not just a matter of losing or weakening our ability to influence the course of history that is at stake, but also the question of our ability to help our own economy. If we cede leadership, by default or otherwise, to Germany in these matters, we may soon find that our domestic economy will suffer as we lose our capability to keep a strong trade relationship with Europe or Japan.

The combination of Japan-bashing, possible imposition of protectionist legislation if the presidential election comes out wrong, and allowing Germany to help Japan secure one of its major objectives is a bad set of omens for the future we most need: continued strong and mutually supporting economic and security relationships with Japan and the other major players in the Pacific.

Obviously, none of this is fatal, but it does mean that we cannot assume that because we are the only superpower, other nations will defer while we decide whether we are going to play our proper leadership role. ■

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Bob and Mindy Rich

HOME:
Buffalo, N.Y. "Let it snow, let it snow, let it snow. We love it here."

AGES: 50; 33.

PROFESSIONS:
Owners, Buffalo Bisons Baseball, Inc.

HOBBY:
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LAST BOOK READ:
Once More Around the Park: A Baseball Reader, Roger Angell.

LATEST ACCOMPLISHMENT:
The best attendance record in AAA baseball. Goes to show you what two people can do when they're of one mind.

WHY WE DO WHAT WE DO:
"It's our favorite pastime."

PROFILE:
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QUOTE:
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The implications of the good news on inflation

THE PROSPECTS FOR INFLATION THIS YEAR look better and better. The Administration and the Federal Reserve estimate internally that inflation will average maybe as low as 2.6% this year. The best news is that it is expected to continue to run around that level. Oil prices are low and stable and may even head down a little, ditto commodity prices and wage costs. Except for 1986, when oil prices collapsed and consumer prices rose by only 1.1%, inflation hasn't run that low consistently since the early 1960s.

This has implications for managers. Companies like GE plan (and have for many years) on getting zero or even negative price changes. "Coping with that is one reason we have become so much more competitive," says GE's Jack Welch. Has Detroit gotten this message? If U.S. carmakers can resist raising their prices to match dollar increases on Japanese cars, they stand a fair chance of at least stemming further Japanese inroads.

The growth in world trade has become one of the strongest anti-inflationary spurs, taking this role over from monetary policy, says Gary C. Hufbauer of Georgetown University. "Central banks should be pushing much harder for such things as a successful conclusion to the GATT trade negotiations," he says.

There are other impacts from low inflation. Many elderly are finding it a strain on their finances that returns on their money are 4%, down from the 8%, 9% or more that they have grown used to. The wrinklies' lobbyist, the left-leaning AARP, is pushing the government to switch to a friendlier-to-the-elderly cost-of-living index (giving more weight to medical costs, for instance), when calculating COLAs for items such as Social Security pensions. AARP would have the taxpayer make up the loss in interest income.

In the early 1980s these COLAs, based on inflation in the preceding third quarter, were paid out automatically in January, provided inflation exceeded 3%. But it failed to hit that level in 1986, and Congress, fearful of the gray panthers, passed a special tranche for 1987 and eliminated the minimum requirement. The COLA this January was 3.7%.

Pressures like these could doom any hope of lower budget deficits a few years out. The Congressional Budget Office expects the deficit to decline from a high 6% of GDP this year and next to around 2.4% in 1996. But after that, despite lower defense spending and passing the worst of the S&L bailout cost, the deficit will head upward again, hitting 3.5% of GDP by 2000. Rising medical costs are mostly to blame, but inexorably rising COLAs on transfer payments, mostly to the retirees, are contributing to forecasts of a steadily rising budget deficit in the late 1990s—unless Congress is willing to take some political heat from the older folks.

People's Private Republic of China?

SOMETIME IN THE COMING YEAR in the People's Republic of China, private-sector industrial production will increase to over 50% of total output—for the first time since before Mao Zedong took over in 1949. This remarkable turn of events seems inevitable. State-owned and -operated enterprises are collapsing. Their share of output, Beijing announced, had fallen to 52.8% in 1991, down another two points since 1990. The state-run enterprises' share of industrial output a decade ago, under rigid central planning, was 80%.

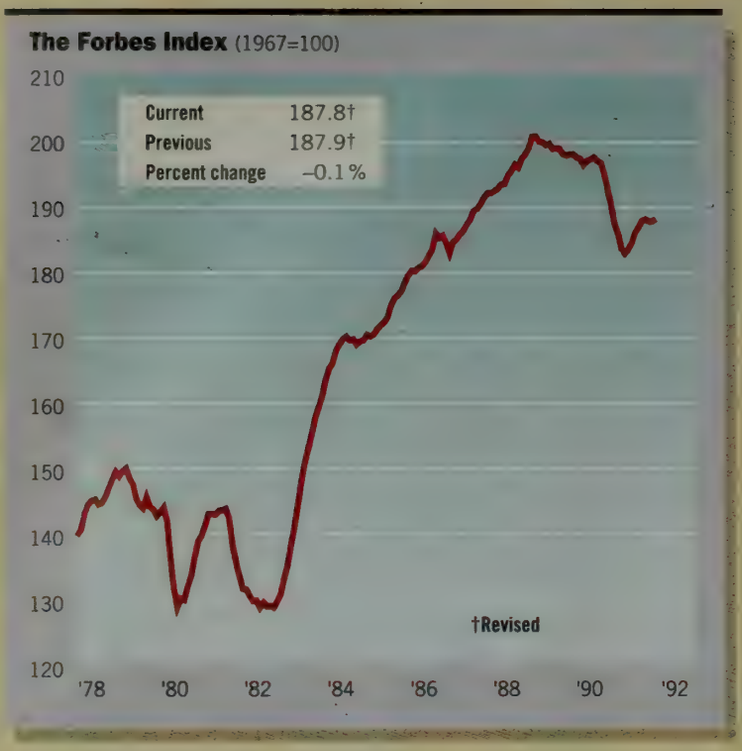
The state enterprises' nemesis is not the private sector, even though that is burgeoning, but rather their own terrible inefficiency. By some estimates, more than half of the state corporations are surviving only on subsidies from the deficit-ridden central government. State factories have stockpiled billions of dollars' worth of unwanted goods, are owed huge amounts of money on goods supplied to other equally broke state companies, and haven't paid their taxes.

Contrast this tale of woe with the rising private industrial sector in China. According to official statistics, in 1991 industrial output by companies involving foreign investment shot up 56%, production by private all-Chinese businesses rose 24%, and output by collectively owned companies was up 18%. (Collectives are typically flexible rural enterprises owned by communes or townships, but which respond to market forces.) Meanwhile, foreign investment is pouring into China, increasing by 67% last year, to $11 billion. All this entrepreneurial activity led to a sizable increase in exports to $72 billion, equivalent to 20% of GNP.

The growth in the private industrial sector, plus the rapid growth in what amounts to for-profit farming, is further loosening the Communist Party's grip on the economy. Some of the old men in Beijing appear to have noticed. In late January, when 87-year-old Deng Xiaoping visited affluent Guangdong, he praised economic reform and exhorted the province to become Asia's fifth economic dragon—after South Korea, Taiwan, Hong Kong and Singapore. —ANDREW TANZER

THE FORBES INDEX

BY TIMOTHY DODMAN



The economy seems to be riding a thin line between a recession and a recovery. The retail and housing components have been slowly gaining strength but are somewhat offset by declining industrial production and weakness in consumer credit. The mixed February employment report is another example of conflicting signals: 164,000 new jobs were created, but the unemployment rate rose slightly, to 7.3%. This increase is partially attributed to an expanding labor force. The Forbes Index finished January with a 0.1% decline.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.5%
Auto sales year to date vs 1991[1]	Ward's Automotive	1.6%
Index of leading indicators Jan vs Dec	Dept of Commerce	0.3%
Trade balance 12 months ended Dec 1991	Dept of Commerce	–$66 bil
All-commodity producer price index Jan vs Dec[2]	Dept of Labor	–0.3%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	0.8%
M2 (3-month change)—annualized growth[3]	Federal Reserve	2.2%

[1] U.S.-based manufacturers, excludes imports, as of 2/29/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

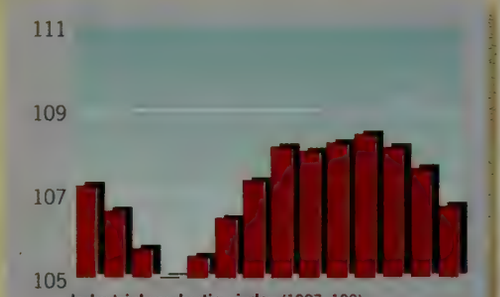
Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

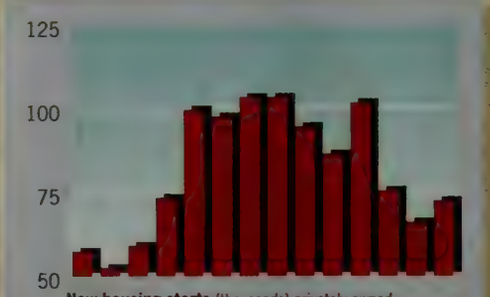
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

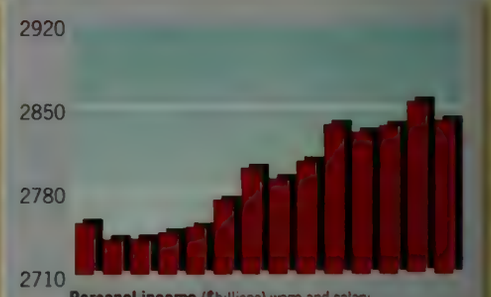
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



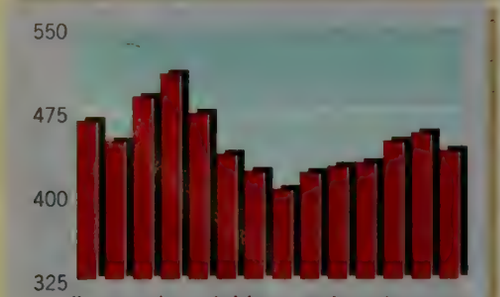
Industrial production index (1987=100) seasonally adjusted (Federal Reserve)



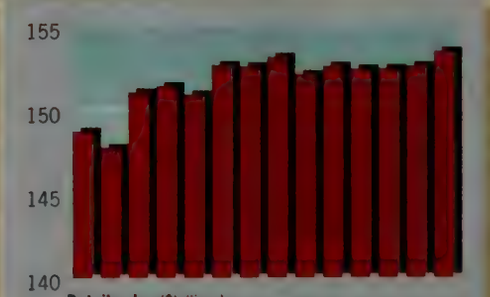
New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



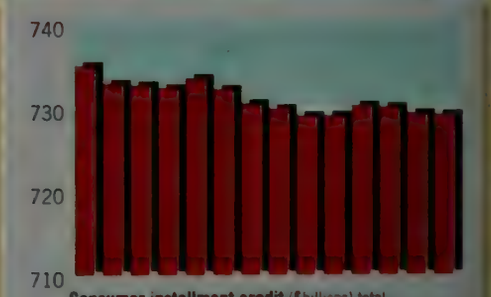
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)



Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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As the U.S. did more than a decade ago, Germany in 1992 is facing sharply rising costs and a significant decline in international competitiveness.

The German disease

By Peter Fuhrman

ECONOMIC GROWTH has stalled, inflation is high and threatens to boil higher, productivity and export growth are stagnating. Believe it or not, this is Germany.

Germans blame the high cost of repairing the damage done by socialism in East Germany. The bill to date is over $100 billion in 18 months, with hundreds of billions still to go. But there is more to the story.

The fact is that western Germany, too, is infected with the socialist virus. "Big government, high taxes and regulations harmful to business are causing a serious cost squeeze and an increasing loss in competitiveness," complains Tyll Necker, president of one of Germany's best middle-size exporters, machinery maker Hako-Werke GmbH. "We are closer to the brink than most people realize."

Corporate taxes soak German businesses each year of 66% of their retained earnings. Thanks to this and the lack of a broad equity capital market, German companies are now the most thinly capitalized in the industrial world, with average equity equaling just 30% of total capital. In the U.S., by comparison, it's 65%. For all but the largest German firms, this heavy debt load makes it more and more difficult to afford cost-cutting capital investment. Electricity and telephone costs are roughly double U.S. rates. Ditto domestic airfares. The government sets the prices and, in the case of the phone company, owns the service and blocks any possibility of competition.

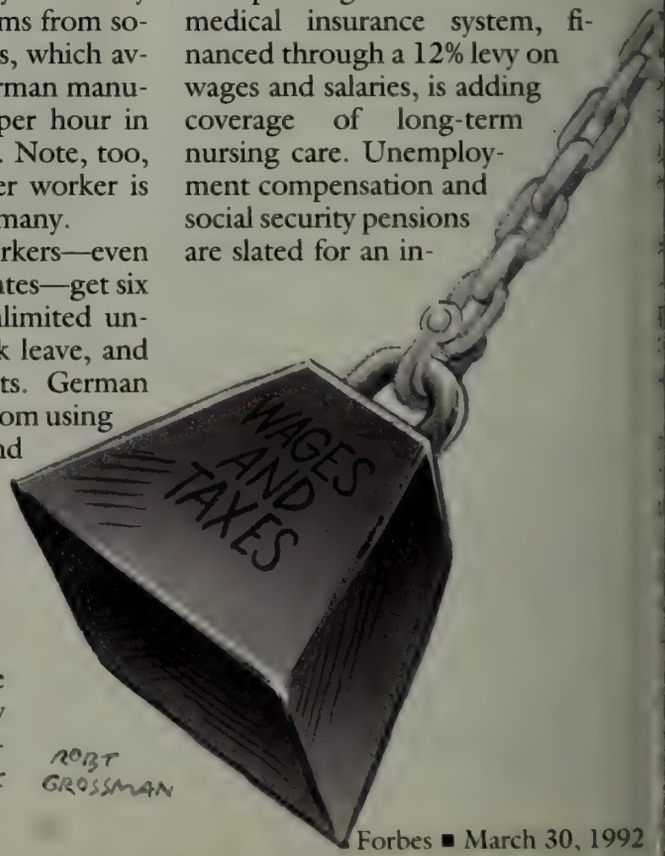
For decades, German competitiveness and ingenuity compensated for all this statism, but now the lines are crossing. The average German manufacturing worker now costs $25 an hour, and new national wage agreements will raise rates this year by around 7%. Wage increases have exceeded the growth in productivity for six years in a row. The comparable U.S. and Japanese manufacturing workers cost $15 an hour.

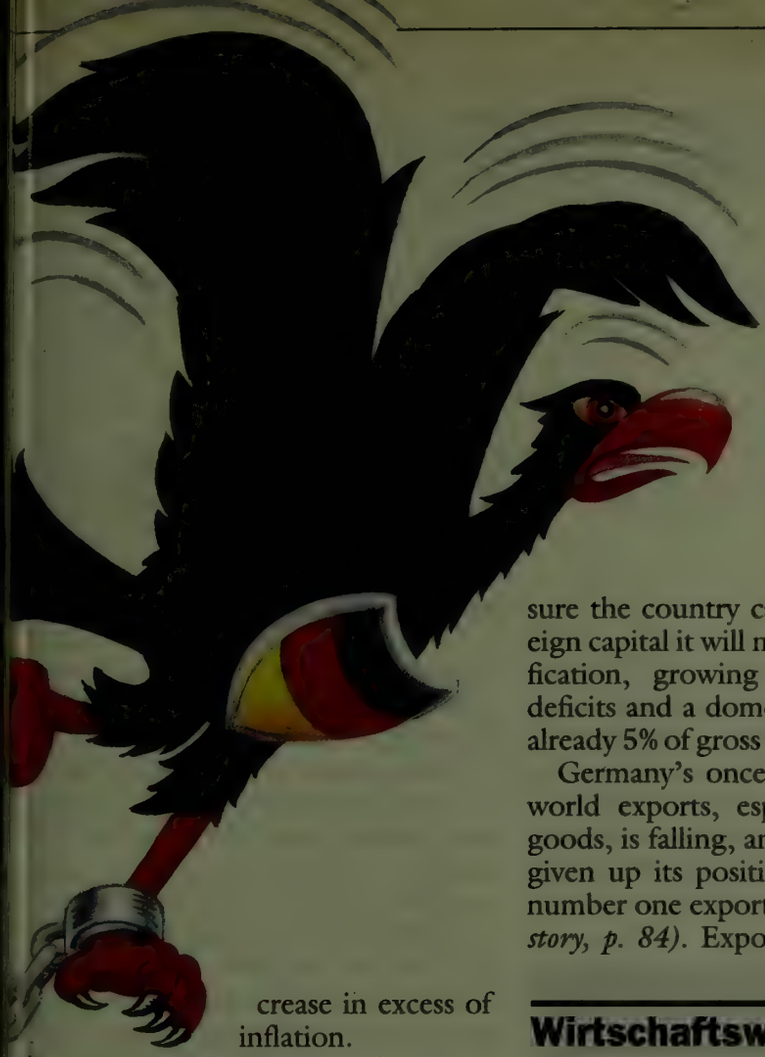
German take-home pay is actually lower. The difference stems from social security contributions, which average $11 an hour in German manufacturing, versus $3.60 per hour in both the U.S. and Japan. Note, too, that American output per worker is much higher than in Germany.

By law all German workers—even recent high school graduates—get six weeks' paid vacation, unlimited unemployment pay and sick leave, and generous layoff payments. German laws prevent companies from using night shifts or weekend work to spread overhead costs more efficiently. German factories now operate an average of just 53 hours a week, about two-thirds the utilization level in the U.S. That gap will grow wider in 1995 when Germany moves to a 35-hour workweek.

The biggest villain is the high and rising cost of German social democracy—with emphasis on the first word. Germany's central and regional governments together take 50% of the country's gross national product. With a population one-third of the U.S.', Germany spends more than twice as much per head on social programs—$400 billion on health, pensions, education, unemployment compensation—as does this country.

And taxes are going higher, as social spending rises. The national medical insurance system, financed through a 12% levy on wages and salaries, is adding coverage of long-term nursing care. Unemployment compensation and social security pensions are slated for an in-





crease in excess of inflation.

The driving force behind the U.S. job-creation miracle of the 1980s was entrepreneurial vigor, exemplified in tens of thousands of new businesses that created new jobs faster than big business shed them. But in Germany it is tough to start a new business. Venture capital is all but nonexistent. And labor laws decree that all German employers pay wages no lower than those agreed on in national collective bargaining; it is illegal for a German job-seeker to offer to take less.

Saddle a decrepit economy in eastern Germany with these social costs, and the result is stagnation. Unemployment in the east has hit 17%, and the hoped-for boom in new business creation has yet to materialize.

As a result of wages rising faster than prices and higher and higher taxes, inflation is running at 4.5%, frighteningly high by German standards and unlikely to go significantly lower anytime soon. Interest rates are very high—the 8% discount rate is double the U.S. level. But bringing them down will be hard. Like the Federal Reserve Bank in the early 1980s, Germany's Bundesbank must keep real interest rates high to make sure the country can attract the foreign capital it will need to fund reunification, growing current account deficits and a domestic deficit that is already 5% of gross domestic product.

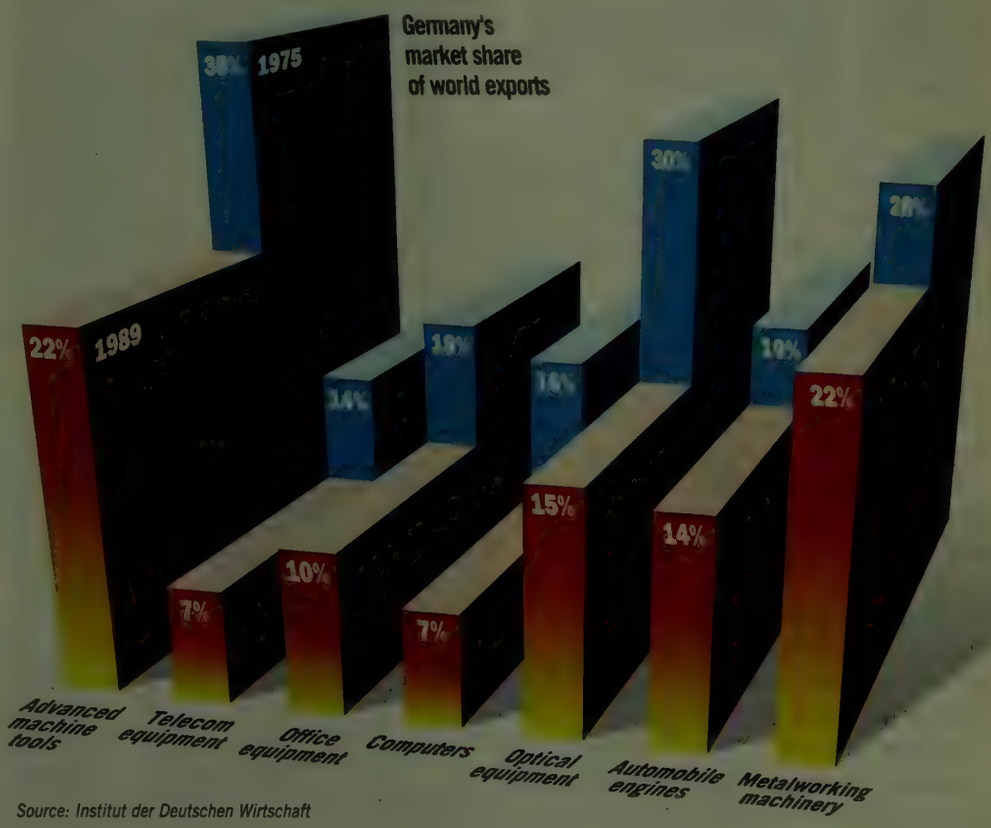
Germany's once vaunted share of world exports, especially in capital goods, is falling, and the country has given up its position as the world's number one exporter to the U.S. *(see story, p. 84)*. Export shares of many sectors of capital goods, which Germany once dominated, have declined *(see chart)*. Last year Germany ran a merchandise trade deficit with the U.S. for the first time in a decade.

And German companies today are mostly ignoring the fast-growing Asian markets. Germany's two-way trade with Taiwan, Korea, Hong Kong and Singapore is just one-fifth the U.S. level.

Automobiles and components account for no less than 15% of German GNP, but Germany has been sharply losing share in the key U.S. market since 1986, hitting a new low last year. To halt the fall, Daimler-Benz and BMW are actively looking into manufacturing in North America. And Hans-Olaf Henkel, president of IBM Germany, says that the computer industry is "quietly abandoning German production sites."

The U.S. was long ago shaken out of its economic complacency. Germany is about to get a similar jolt. ■

Wirtschaftswunder no more



Source: Institut der Deutschen Wirtschaft

High-cost German industry is losing competitiveness even in markets it long dominated.

An obscure American figures prominently in the Robert Maxwell scandal. Was Larry Trachtenberg an accomplice? Or a dupe?

The third man

By Richard C. Morais

LARRY STEVEN TRACHTENBERG, 39, an expatriate American, is the third man in the Robert Maxwell scandal. He has not been arrested or charged with any crime. But he is under investigation alongside Maxwell's heirs, brothers Ian and Kevin Maxwell. London's heavy-hitting Serious Fraud Office is interested in Trachtenberg's role, as are the court-appointed liquidators of Maxwell's companies.

Who is Larry Trachtenberg?

A native of California, he earned a degree in political science from California State University and arrived in London in 1975 to study at the London School of Economics. After earning a master's degree in political science, he taught at the London School of Economics and at the London campus of the University of Southern California.

He apparently first met Maxwell around 1986 and the two hit it off immediately. Trachtenberg and a partner had formed Global Analysis Systems, a company that published political risk analysis, and Maxwell bought Global, adding it to his empire. "Maxwell had a 'get things done' character, and Larry responded," recalls Susan Strange, a professor of international relations at the European University Institute in Florence and a friend of Trachtenberg's.

Maxwell made Trachtenberg a director in a complicated web of money management companies, most prefaced with the words "London & Bishopsgate." These companies managed the pension funds of Maxwell's public companies—Maxwell Communication Corp. and Mirror Group Newspapers.

Since Maxwell's mysterious death at sea in November, investigators have discovered that when the overleveraged empire began to crumble in the summer of 1991, Maxwell "borrowed" securities from the pension funds, often reselling them and using the proceeds as if they were his own. Through Bishopsgate Investment Management Ltd., for example, Maxwell "borrowed" $700 million from the pension funds of the Mirror Group Newspapers, Maxwell Communication and other smaller Maxwell-owned companies.

Daily Telegraph

Larry Trachtenberg
He was always a team player. But whose team was he on?

Larry Trachtenberg facilitated the transfers. In October 1990 Trachtenberg showed up with an empty briefcase at Invesco MIM, an independent fund manager running $88 million of Mirror Group Newspapers' pension funds. Trachtenberg said the pension trustees wanted to borrow the shares.

"There was a heated debate," says a source. "But Trachtenberg produced a letter on behalf of the trustees, signed by two board members."

Invesco MIM executives had to give Trachtenberg the shares. The stocks were borrowed for 30 days; the arrangement was then rolled over monthly.

In this case there was a happy ending. On Dec. 2, 1991, one day after the extent of the pension manipulation became publicly known, the shares showed up back at Invesco MIM. But most of the Maxwell companies' pension funds were less lucky.

Trachtenberg has testified to investigating accountants Coopers & Lybrand Deloitte that he was ordered by Maxwell last June to transfer the share certificates of the pension funds to the publisher's private safe in the Maxwell headquarters penthouse on London's High Holborn. Maxwell apparently used a large part of these assets to support the price of his public companies' stocks. These support operations are alleged to have included Goldman, Sachs & Co.'s active trading in shares of Maxwell Communication. The pension funds have little chance of reclaiming the assets.

Was Trachtenberg a dupe—a naive American stepping from the pages of an Eric Ambler novel? Or was he a co-conspirator?

His friends think he was duped. "He was dependable, efficient, helpful," says London School of Economics professor Michael Banks. "Nice fellow to have around. He was a team player. Always a team player."

But whose team was he on? The pension funds for whom he worked? Or the imperious Maxwells?

After splitting Burlington Northern into two pieces, Dick Bressler is now about to split one of the pieces. The market loves it.

Divide and prosper

By James R. Norman

FOUR years ago Burlington Northern's board and its chairman, Richard M. Bressler, spun off to the railroad's shareholders its vast energy operations. Wall Street applauded.

From a market value of $4.2 billion in mid-1988, the two-part company leaped to almost $9 billion within a year. Add to that another $500 million (market value) worth of Plum Creek Timber Co., a public partnership that bought the forest holdings and wood products business from Burlington Resources in mid-1989.

Now Bressler is trying the divide-and-prosper trick again. This year Burlington Resources plans to spin off its El Paso Natural Gas pipeline unit, one of the country's most efficient pipelines, and the low-cost supplier to the California market. One share of the new stock will be distributed for every four shares of Resources stock. The spinoff is initially valued at around $600 million, or around $5 per share of Burlington Resources' shares, which now trade at 36. Analysts think the two pieces could again be worth more than the whole.

Stripped of El Paso, Burlington Resources would be the country's biggest pure-play oil and gas producer through its Meridian Oil, which just surpassed Texaco Inc. as the country's seventh-largest holder of natural gas reserves. Reflecting the depressed market for natural gas, the stock has underperformed the Dow; it was recently selling at just 80% of its present reserve value. But with prodigious low-cost reserve additions from coal-seam gas wells in New Mexico's San Juan basin, Burlington Resources is likely to do well again once gas prices recover.

In a sense Burlington's shareholders have the rail unions to thank for their expanding base of appreciating paper. A decade ago the tough-minded Bressler was determined to cut Burlington's train crews to two men from four. Planning ahead for a long strike, he bought El Paso in 1983 in a hostile two-tier tender offer for $1.2

Gloria Baker

Burlington Northern's Gerald Grinstein **The railroad has outperformed Resources since the spinoff.**

Mastermind of the BN breakup, Richard M. Bressler **While creating value for shareholders, he's been working himself out of a job. No doubt James J. Hill, rail baron of the Great Northern Railway (in the portrait), would approve.**

billion, to provide the company with an alternate income stream. In 1985 Bressler added Southland Royalty Co., purchased for $730 million in another unwelcome raid, to Burlington's energy holdings.

By 1987 Bressler was ready for a strike. But then the Supreme Court derailed his strategy by upholding secondary boycotts by rail unions. Labor could thus take any strike nationwide and put the settlement in the hands of a friendly Congress.

Bressler didn't take the setback lying down. He split the company, letting the railroad fend for itself. If the unions were going to milk it dry, they wouldn't be able to milk the other properties as well. The railroad was saddled with a 76% debt-to-capital ratio, among the highest of any major railroad. "The standing joke was that they [Burlington Resources] got the gold and we got the shaft," quips Gerald Grinstein, the railroad's chief executive since the spinoff.

Not quite. Since the split, the shares of the railroad company are up two-thirds in price. The railroad has continued to improve its revenue ton miles per employee, from 7 million to 7.3 million per year, and reduce its debt ratio, to a recent 62% of capital. In October Grinstein managed to cut a deal with the union for two-man crews on the southern two-thirds of BN's system. Talks with northern crews continue. Systemwide, it will cost BN $185 million (or $60,000 each) to buy out 3,300 brakeman, conductor and other jobs, but Grinstein expects to earn that back in 18 months.

Bressler is convinced that stripping the railroad of its resource cushion benefited not just Burlington's shareholders but the companies themselves. "People now realize they are responsible for making their own businesses go," he says. "There is no more corporate Big Brother."

With the spinoff, Bressler has left his chief executive roles with both the $4.6 billion (1991 revenues) railroad and the $1.8 billion Burlington Resources. Now 61, he's leaving Resources' board but will remain chairman of $735 million El Paso. "The only one displaced by all this is me," he says with a grin. "My role is diminished, as it should be." Covered with glory is a better way to put it. ■

Americans aren't shopping the way they did a few years ago, and hundreds of the country's malls will have to transform or die.

Battle of the malls

By Howard Rudnitsky

AT THE HEIGHT of the consumer spending boom in the mid-1980s, lots of Americans said they enjoyed shopping in malls more than sex. But what's this? Statistics show that your typical consumer is spending a lot less time cruising the malls: four hours a month in 1990, versus ten hours in 1985. Sales per square foot came to $163 last year, down 13% from 1986.

Anticipating continued growth, developers overextended in the 1980s. Daniel Sweeney, chairman of Management Horizons, the retail consulting arm of Price Waterhouse, says that just to get back to the sales-per-square-foot productivity levels of the 1970s, square footage in the nation's 35,000 shopping centers and 1,800 larger regional malls will have to shrink by 10%, or 450 million square feet. He expects to see 3,700 shopping centers fail or even go out of business. The likely result: Owners of floundering malls may have to lure service-type tenants such as community meeting facilities, libraries, and health and social services.

Among the victims will even be some regional malls—enclosed malls in excess of 400,000 square feet, centered on department stores. Increasingly, the weaker among these are threatened by "community discount centers"—anchored by retailers like Wal-Mart, Kmart, Home Depot, Toys "R" Us and Price Club. Adding to the competition are factory outlet malls like Woodbury Common in Central Valley, N.Y. They sell on price, not on ice-skating rinks, fancy food courts and other amenities that have become a part of regional malls.

The discount retailers often build huge stores near established malls and siphon off their sales. Therese Byrne,

Home Depot (left) and Mall of America **Growing threats to older, more traditional regional malls.** ■

Salomon Brothers' shopping center real estate analyst, calls these retailers "terminators." Says Byrne, "Their low cost structures destroy the values of existing weaker shopping centers." Presold by advertising and image promotion, value-seeking customers no longer need a department store to tell them what to wear or to buy.

So increasingly they are being drawn to discount malls. In Poughkeepsie, N.Y. the 605,000-square-foot older South Hills Mall was in trouble. It was being squeezed by a newer, bigger and more expensive regional mall built just across the road, the 1.2-million-square-foot Poughkeepsie Galleria—with such tenants as G. Fox, Lechmere, Steinbach, Montgomery Ward and J.C. Penney. Lured by fancier buildings and the prospect of more traffic, Sears is vacating its South Hills store and is reopening in the Galleria.

Solution: South Hills went discount. Owned by Sarakreek, a large Dutch investment company which had bought it in 1983 for $19 million, South Hills got rid of Hess's department stores and 25 low-volume stores. The occupancy rate quickly dropped to 70%. So South Hills went out and recruited powerful discounters like Burlington Coat Factory, Office Max and Price Chopper. On seeing that, Kmart decided to enlarge its store in the mall. Now, instead of being hurt by the newer mall across the road, South Hills will try to draw some business from the Galleria. "We put together a merchandise mix that wouldn't discourage people from shopping both malls," says John Mannix, Sarakreek's U.S. mall manager. "The customers who visit the Galleria walk around, they ooh and aah, they have their Slurpee at the food court, and then they come to our mall to shop."

William Flatley, a retailing consultant at Kurt Salmon Associates, thinks community discount centers like the repositioned South Hills Mall will do to many of the older regional malls what the malls did to downtown shopping. "Years ago the malls lost their hard goods business," says Flatley. "Now they worry about losing their apparel franchise. Eight years ago malls had 60% of apparel sales, today they have 50%. Most of it has gone to off-pricers and discounters."

As the South Hills example suggests, there are opportunities as well as problems in the shopping center business. Bruce Garrison, senior vice president at Kidder, Peabody, says Weingarten, Federal and New Plan realties, all publicly traded real estate investment trusts, are benefiting by aggressively courting fast-growing discount retail chains to the shopping centers they manage. Weingarten Realty, headquartered in Houston, manages 115 shopping centers in seven southwestern states. Occupancy at its centers is 95%, and same-store sales were up 7% last year. Significantly, Weingarten's retailers include discounters Kmart and Eckerd Drugs. One of Weingarten's advantages: It doesn't levy common area maintenance charges, as most malls do. They can run to $3 a square foot per month—a nice chunk of a retailer's sales in a slow year. Not charging these fees helps keep Weingarten's tenants growing and healthy.

But owners of weaker regional malls, like Cincinnati, Ohio-based Forest Fair Mall, which has lost three of its department stores, are going to find it a lot tougher to survive.

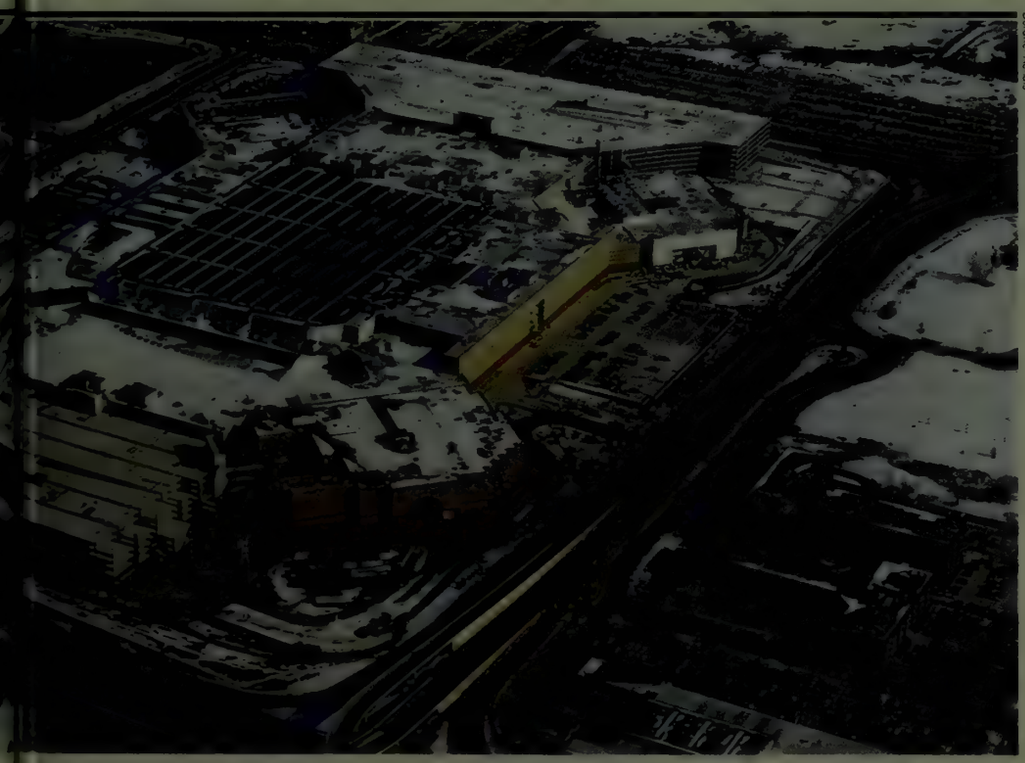
Even well-known mall developers like Edward DeBartolo and Mel Simon, under financial pressure, are being forced to sell some of their older properties to ease the strain so they can continue developing new projects.

This year alone about 100 million square feet of new shopping center space will be added, including the largest U.S. mall ever: the 4.2-million-square-foot Mall of America, near Minneapolis. The $625 million center will be anchored by four department stores and will even include a Knotts Camp Snoopy theme park, an 18-hole pitch-and-putt golf course and 14 movie theaters. Opening ceremonies are scheduled for August.

With the area probably already overmalled, Mall of America is bound to hurt nearby regional malls. Arthur Spellmeyer, senior vice president at Melvin Simon Associates, developer of the project, intends to bus shoppers in from as far as 150 miles away. Says Spellmeyer: "We expect to have about 40 million visits a year; over 100,000 Japanese tourists will visit Mall of America this year. They love a spectacular mall."

Mall of America was partly financed by the City of Bloomington, which issued $100 million in tax-exempt bonds to buy the 100-acre site to build a 12,000-car parking garage. The taxpayer subsidy will make it tougher for nearby malls to compete.

Discount shopping centers as well as dominant regional malls may prosper. But a lot of others are going to get hurt. ■



Bordner Aerials

Upholding the interests of stockholders was once a board of directors' primary duty. Not anymore.

Conflicting interests

By James Lyons

Andy Levine

IT'S AXIOMATIC that corporate directors are supposed to act in the best interests of shareholders. But what happens to a director's obligations when a company files for bankruptcy? The fiduciary responsibility shifts, and board members are supposed to act as trustees, conserving assets to pay creditors.

The so-called "bright line" of bankruptcy is straightforward. But a recent decision by William Allen, a judge of the Delaware Chancery Court, may have fuzzed that line a bit.

The essence of Allen's ruling is that directors of companies "in the vicinity of insolvency" must not only consider the interests of shareholders, but must also try to ensure the corporation's "long-term wealth-creating capacity." In other words, when a company is in serious trouble, the directors' responsibility shifts somewhat in the direction of the creditors.

Allen's ruling came in an action brought by Crédit Lyonnais Bank Nederland against Giancarlo Parretti and his Pathe Communications Corp. The suit stemmed from Parretti's disastrous $1.3 billion buyout of MGM/UA Communications Co. in November 1990. Crédit Lyonnais and its affiliates advanced Parretti $751 million for the deal. Five months later, the company was forced into bankruptcy.

To salvage its investment, Crédit Lyonnais devised a series of agreements that changed the management of MGM. Among them was a corporate governance agreement, which said that if Parretti violated the pact, the bank could vote Parretti's 98.5% of MGM stock. MGM then emerged from bankruptcy.

It took only about two months for Crédit Lyonnais to charge that Parretti had broken his word. The bank used its voting rights under the agreements to oust three Parretti directors. The bank then went to court to ask it to affirm its actions. Chancellor Allen ruled that the bank acted properly.

But what has corporate lawyers buzzing is a footnote Allen slipped in on page 83 of his 89-page opinion. Allen is one of the most respected jurists on corporate governance. When he writes, lawyers listen.

Parretti claimed that MGM's board breached their fiduciary duty to him as MGM's largest stockholder. Strapped for cash, Parretti wanted MGM to sell some assets. The board refused. Allen found that while the board of directors gave Parretti due consideration, the directors were not merely Parretti's agents, but rather they "had an obligation to the community of interest that sustained the corporation."

In his lengthy footnote, Allen crafts a hypothetical example of a company on the brink of insolvency. The corporation's sole asset is a $51 million judgment against another company. That judgment is being appealed. The corporation's only liabilities are $12

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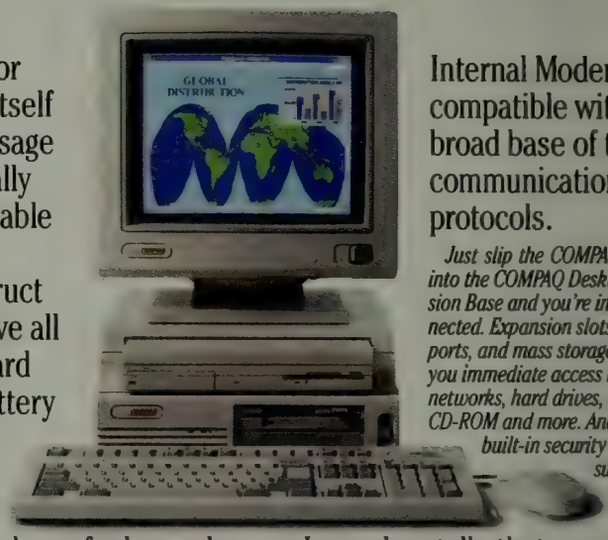

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million in bonds.

What are the chances of the company's getting that judgment? Should the directors accept a settlement offer? Allen posits a 25% chance the judgment will be upheld on appeal and a 75% chance that it will be either reduced or reversed.

Calculating the various outcomes, Allen concludes that the expected value of the judgment is really about $15.55 million. With $12 million set to go to the bondholders, the company's equity is worth $3.55 million. To make things more interesting, Allen goes on to posit that there are two settlement offers on the table, one for $12.5 million and another for $17.5 million. What should directors do?

Facing a 75% chance of reversal or reduction of the judgment, creditors likely would want the board to accept either settlement offer, since their interests would be covered. Stockholders, with their "appetite for risk," would probably want the board to reject both offers, figuring they might be able to win more in litigation.

Allen's solution? The board should accept the $17.5 million settlement proposal. Once the $12 million worth of bonds is paid off, the $17.5 million deal will leave the equity holders with $5.5 million, more than they would have received under the expected value of the judgment. Allen hypothesizes that a board beholden solely to the equity holders will prefer to gamble on winning the suit even though the odds are against them. Why? Because the potential gain is so large. The bondholders, on the other hand, have a lot to lose by gambling on the suit, since there's a chance the award will be reduced below $12 million. As Allen points out, a decision for settlement "will not be reached by a director who thinks he owes duties directly to shareholders only."

All this is of intense interest at a time when many junk-bond-financed companies are frequently on the edge of insolvency. The job of their directors may be complicated by Chancellor Allen's ruling. The irony here is that by upholding the actions of a board, Allen has created uncertainty for everyone else. Yet another example of why the only universal legal principle is the law of unintended consequences. ■

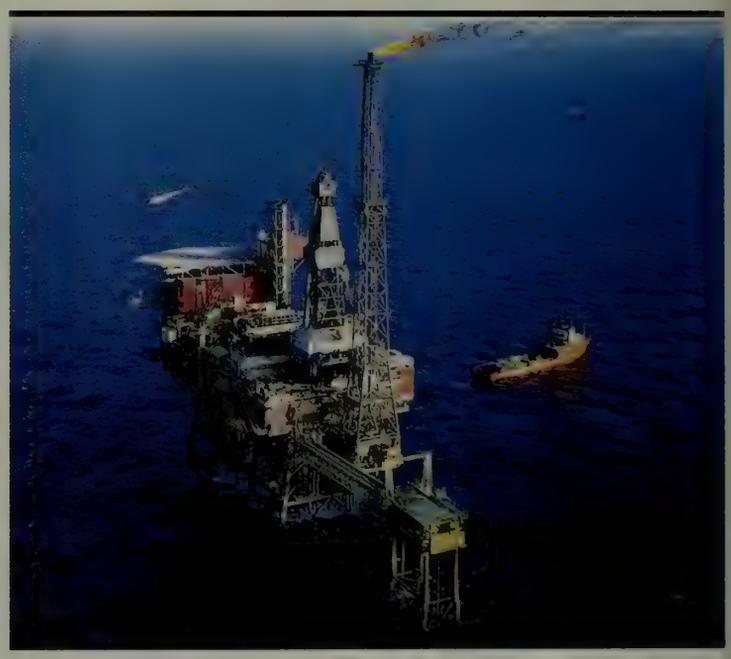
The oil business is going great guns in Britain and is in a bad slump in the U.S. Why the difference?

Tale of two energy policies

By Toni Mack

OIL PRICES are down, but energy development activity in the British sector of the North Sea is booming. Analysts at County NatWest Wood MacKenzie forecast spending of nearly $10 billion there this year, a record. New fields being developed will probably push British oil and gas production to a record 2.7 million barrels a day by 1995.

By contrast, U.S. drilling is at its lowest levels since records began to be kept 52 years ago. Where the Brits ran a $2.4 billion surplus on hydrocarbon trade last year, the U.S. imported $50 billion worth of oil and oil products.



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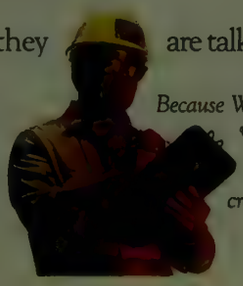

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IAN WOOD was working in his father's fishing business in Aberdeen, Scotland, when oilmen began arriving there to explore the North Sea. In 1972 he visited Houston to see what oil might do to Aberdeen. On his return, Ian and his father started an offshore service company. Last year the John Wood Group earned $17 million on $214 million in revenues. Based on a recent private placement, the Wood family's 85% of the company is worth about $130 million.

Stephen and Peter Bond's late father, David, was running a crop-dusting business out of Aberdeen when Royal Dutch/Shell asked him to fly helicopters to supply its fledgling North Sea operations in the early 1970s. Today the Bond boys own and run Europe's second-largest helicopter operator. In 1991 their Bond Helicopters Ltd. netted nearly $9 million on sales of $104 million.

No part of Britain has prospered more from North Sea oil development than Aberdeen, a town of 211,000 friendly people and charming native granite buildings nestled on the sea's western rim. Unlike Houston, say, Aberdeen keeps booming. Traffic is congested, home prices exorbitant. Some 54,000 local people now toil in oil; another 20,000 jobs are estimated to depend principally on the oil business. Unemployment is just 3.3%, versus 9.7% on average for Scotland.

But the wise know that all booms eventually go bust. No matter how generous the British government's tax policies *(see story)*, the North Sea's oil and gas will deplete over the next 20 to 25 years. Planning ahead, Ian Wood now generates 40% of his company's sales outside the North Sea, and the Bond brothers are bidding on work in the Middle East and the Far East. U.S. oil service companies beware.

–T.M.

Guido Alberto Rossi/Image Bank

Aberdeen, Scotland **Friendliness, charm and prosperity.**

Why the huge difference? Taxes and politics.

British politicians seem to understand that it's better to nurture their North Sea goose and tax it than to eat it. So when hard times hit the British oil industry, the politicians try to help it along. In 1986, the worst year in the oil business in recent memory, the U.K. allowed companies to accelerate deduction of their development expenses, thereby cutting taxes. That was the year the U.S. raised taxes on domestic producers.

Thanks to tax tinkering, Royal Dutch/Shell's $2.3 billion Fulmar production facilities in the North Sea will still be producing oil in 2010—five years past the Fulmar oilfield's projected life. Tax incentives enabled Shell to appraise and develop four nearby fields, and to run their output through Fulmar's facilities.

Or take Lasmo Plc., a $513 million (estimated 1991 revenues) independent operator. Under British law, almost all North Sea oil and gas fields opened since 1982 are free of all royalty payments, but earlier fields are not. Lasmo wanted to develop a 100-million-barrel field that the authorities ruled was legally an extension of a pre-1982 field; thus the new wells would be subject to royalty and would therefore be uneconomic for the company. Rather than kill the development, Britain's energy department ruled that if profits on the new field were to dip below a floor rate of return, royalties would be rebated. Lasmo is now working up plans to produce roughly 45,000 barrels a day there in 1995.

British depletion allowances are also much more generous than those in the U.S. And almost all of the British sector of the North Sea is open to explorers. Compare that with the situation in the U.S., where environmentalists have fenced off nearly all promising new territory, including Alaska's Arctic National Wildlife Refuge (FORBES, *Mar. 9, 1987*). The U.S. Department of the Interior estimates that the refuge could gush as much as 659,000 barrels of oil a day, 11% of U.S. imports. But oilmen may never get to drill there.

Off California's coast, Point Arguello, the U.S.' biggest oil find since Prudhoe Bay, is now producing a mere trickle of oil. Years of environmental opposition have kept the field's owners from getting the crude to refineries onshore.

Are the British heedless of the environment? No, but they aren't heedless of economics either. "Make no mistake," says Victor Beghini, president of USX's Marathon Oil Co. "The British government has the same goal as the U.S.—no opportunity for environmental damage. The difference is that the British haven't hamstrung the industry."

Sighs Beghini: "Every country in the world covets our energy expertise and our capital, except the U.S."

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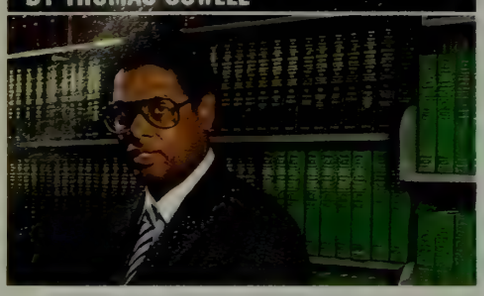
Judges have created many of the troubled waters in which lawyers fish.

Accomplices

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

MUCH OF WHAT sophisticates loftily refer to as the "complexity" of the real world is in fact the inconsistency in their own minds. Nowhere is this more true than in the U.S. Supreme Court.

In the recent case of Hudson v. McMillian, seven Justices got themselves tangled up in self-imposed complications over the Eighth Amendment's ban on "cruel and unusual punishment." A handcuffed prison inmate had been beaten by prison guards. That was certainly cruel and we must hope that it was unusual. The real question is whether it was punishment.

When the Constitution was written, punishment referred to the sentences meted out in court—not the subsequent administration of prisons. For more than a century and a half, courts respected this clear meaning, which is to say, they respected the boundaries of their own power. Then, during the recent decades of judicial self-indulgence, all sorts of new meanings were read into the Constitution.

In 1976 the legal concept of "punishment" was extended beyond its historic meaning in the Eighth Amendment. The administration of prisons was now transformed into a constitutional issue.

No doubt many terrible things happen in prison—and always have. This is not one of those new, modern "complexities" which supposedly "force" the courts to adapt a "living Constitution" to our more advanced times. Those who wrote the Constitution simply had the good sense not to try to make it cover every sparrow's fall.

Every misdeed, outrage, or even atrocity is not unconstitutional. It is still not unconstitutional to murder the President of the U.S., for example, and 30 years ago it was not even a violation of a federal statute. Yet, in recent decades, the dangerous idea seems to have gained acceptance that whatever shocks a Supreme Court Justice is unconstitutional.

Justice Sandra Day O'Connor, who delivered the Court's decision in Hudson v. McMillian, referred to "evolving standards of decency that mark the progress of a maturing society" to justify judges' rushing in where the Constitution gave them no authority to tread. She was quoting a 1981 decision—which is to say, she was following the logic of extensions of the Constitution breeding new extensions.

Worse, it breeds a pervasive uncertainty as to what laws in general mean. That is good news only to lawyers. Centuries of struggle, agony and bloodshed have gone into promoting the ideal of "a government of laws and not of men." Now all of that has been blithely waved aside with lofty talk about "evolving standards"—which means that you cannot know what the law means until judges issue the latest bulletin from the "evolving standards" front.

Why did the Constitution establish other branches of government, if not to allow changing needs and standards to be reflected in changing laws and policies? Too often the "evolving standards" of the judges are simply the zeitgeist of the anointed imposed on an electorate which has rejected it.

You cannot have a law-abiding society unless people know—in advance—what the law means. Not only individuals but institutions cannot be decisive when "evolving standards" turn judges into roving second-guessers with power, rather than enforcers of known laws.

Schools are paralyzed in dealing with disruptions and violence that threaten the very purposes for which schools were established, because no one knows how some judge will apply "evolving standards" and let the school be sued by a hoodlum who was expelled. Businesses, foundations and public agencies likewise live in the shadow of murky "evolving standards" of law, which ultimately mean that even the most clearly spelled-out law or contract does not protect you from some judge's crotchets.

The so-called "litigious society" is not unrelated to the judicial blurring of legal lines. Judges have created many of the troubled waters in which lawyers fish. More important than the particular damage awards, or the legal blackmail that leads to out-of-court settlements, is the indecisiveness imposed on decision makers in general.

Put differently, those who know—who are on the scene and have the experience, training and expertise to realize what needs to be done—are constrained by the second-guessers with their "evolving standards." Those who know are being stifled by those who don't know.

What is at issue are not simply the particular facts of the particular prison episode on which the Supreme Court ruled in Hudson v. McMillian, but the legal principles they resorted to in resolving that case. It is not easy to remain faithful to the written Constitution and at the same time respect the legal precedents of an era when earlier judicial adventurers have gone off into the wild blue yonder.

That is not due to "complexity," however. It is due to the legal inconsistencies inherent in trying to make the Constitution an instrument of the zeitgeist instead of a framework for a government of laws and not of men. ■

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First Jersey, Blinder, Robinson, Stuart-James, Chatfield Dean—the name keeps changing but the game remains the same.

Hello, sucker

By Claire Poole

ABOUT A YEAR AGO Chatfield Dean & Co. took over eight offices and 200 brokers from the liquidating penny-stock peddler Stuart-James. That's how it is in the penny-stock business. Put one firm out of business and another takes over the offices and the personnel. Only the name changes.

When two states—Missouri and Massachusetts—threatened to ban Chatfield Dean from selling securities there, the firm withdrew its applications. Chatfield Dean had already been soliciting business in Massachusetts without a license and had failed to disclose its business in unlisted o-t-c securities to Missouri officials. Each state fined the firm $4,000.

The National Association of Securities Dealers has already fined Chatfield Dean $1,000 for entering Nasdaq quotations containing excessive spreads. The NASD has also censured and fined the firm for failure to supervise brokers, guaranteeing returns on investment and unauthorized trading in its Chicago branch office. Chatfield Dean is appealing.

And now comes the Securities & Exchange Commission. In January, sources say, SEC investigators subpoenaed thousands of pages of Chatfield Dean documents, including trading records and customer complaints. They're said to be looking for evidence of "crossing," a practice in which stock is shifted back and forth between investors to pump up the price and generate commissions.

First Jersey Securities is long gone, and so are Blinder, Robinson ("Blind 'em and rob 'em") and Stuart-James. But the penny-stock monster is a protean character. With 11 branch offices and about 600 brokers, Chatfield Dean & Co. has taken Stuart-James' place as the largest penny-stock broker in the U.S., grossing an estimated $50 million last year. One state regulator was recently told that the firm plans to expand to 16 offices and 1,000 brokers.

Except for the signboard, nothing much changes as one name succeeds another. A new Chatfield Dean broker is simply handed Blinder, Robinson's old training manual, with Chatfield Dean's name on the cover. It highlights the familiar three-call approach to selling stock: introduction, teaser, hard sell. The manual gives sample pitches and recommends that brokers make 200 to 300 calls a day. Chatfield Dean offices are literally sweatshops of cold-calling. In Chicago, according to former brokers, if branch manager Kevin Grom catches a broker not using his telephone, the broker loses that privilege for the day.

In one incident that gives new meaning to the term "hard sell," a Chatfield Dean broker in Tampa had a woman's utilities turned off when she wouldn't buy stock from him.

Prospects who take the Chatfield Dean telephone bait sometimes get unlovely surprises. About a year ago a Boise college professor bought 1,500 shares of a computer distributor called Random Access. The professor knew the risks of investing in low-priced stocks, but he didn't know the risks of dealing with Chatfield Dean. Several months later his broker called to update him on his holding in Airship International. Airship International? The professor told his broker he must have confused him with another client.

But when the professor went over his statements, he discovered that his stake in Random Access had been sold in July, without his prior knowledge. The proceeds were used to buy 1,500 shares of something called Plants for Tomorrow. A few days later that trade was canceled, and his money went to buy 2,600 shares in Airship International. The professor didn't even know what Airship International was. It was a blimp operator for which Chatfield Dean had helped raise $4 million in a February offering.

After the professor complained to Idaho regulators, Chatfield Dean agreed to reverse his trades. He's thinking of going to another firm.

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John and Aloha Burris, retired ranchers living in Silver City, N.M., had a chilling experience after they were taken in by a cold-calling Chatfield Dean broker. The broker told Aloha Burris he could double the couple's money in a stock called Trinity Towne Investments. So she committed $4,700 over a six-month period—the last of their life's savings.

Trinity Towne Investments? It was a penny stock that began as a blind pool and later acquired a company called D.H.A. Dental, Inc. In April 1990 D.H.A. Dental filed for Chapter 11. The stock, which traded at 3¾ cents when the Burris couple bought it, has since fallen off the pink sheets as an inactive stock.

Some of Chatfield Dean's recent offerings are recycled Blinder stocks like Vector Aeromotive Corp., maker of a $378,000 exotic sports car allegedly capable of speeds topping 200mph. Last August Chatfield Dean, with Paulson Investment Co., raised $4.5 million for Vector. The Vector units came out at $1 and traded as high as $2 and change—even though Vector had ceased production in March 1991. Now, just half a year later, the Vector units have fallen back down to around $1.

The man behind Chatfield Dean is Sanford Greenberg, a 33-year-old fond of Rolls-Royces and Rolex watches. Greenberg learned the business at the feet of the penny-stock master, Meyer Blinder. During his seven years at Blinder, Robinson (FORBES, *Apr. 20, 1987*), Greenberg pulled down more than $500,000 a year as one of the firm's top salesmen and training executives. Before that Greenberg sold cars and picked up some tricks of the trade from his father, oft-disciplined Arnold Greenberg of Sherwood Securities.

Like Blinder and his own dad, Greenberg is no stranger to regulatory problems. In March 1991 he was censured and fined $4,500 for unsuitable securities transactions while at Blinder, Robinson. In January 1989, a year before the complaint originally came down, Greenberg left Blinder to join Power Securities. In February 1989 Power Securities shut down under pressure from regulators.

Looking for an outlet for his talents, Greenberg joined Chatfield Investment Co., a small firm run by Cheryl Chatfield. They changed the name of the firm to Chatfield Dean & Co.—Dean being Greenberg's middle name. A year later Chatfield left the firm.

In November 1990 state regulators tried to block Chatfield Dean's takeover of Stuart-James' Florida offices, but a state court ruled against that.

And so, it seems, you can't keep a penny-stock con artist down. Federal and state investigators suspect that Greenberg gave a 10% stake in Chatfield Dean to Stuart-James' old principals, Stuart Graff and James Padgett, in exchange for Stuart-James' offices. Greenberg denies it.

You wouldn't learn much of this from talking with Sandy Greenberg. He claims his firm sells mostly John Hancock mutual funds and Nasdaq securities. But forewarned is forearmed. Next time you get a cold call from a Chatfield Dean broker, hang up. Fast. ■

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Charlie Samuels

Blaine Roberts, senior managing director of Bear, Stearns **Is that a trading floor or a factory floor?**

Is it paper-shuffling? Or a new form of manufacturing? Call it what you will, Wall Street firms have figured out how to transform old-fashioned bank loans into all kinds of new securities.

Bank reform Wall Street style

By Richard L. Stern and Jason Zweig

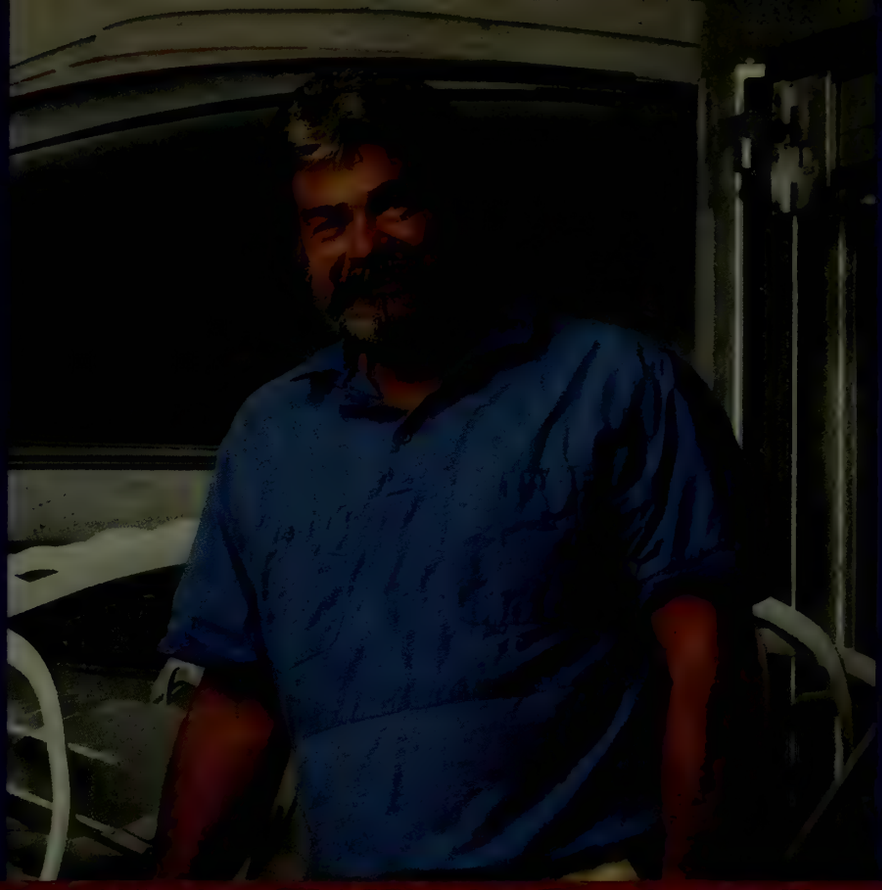
BLAINE ROBERTS, a senior managing director at investment bank Bear, Stearns & Co., gazes out over an enormous room as tumultuously active as an anthill. "That's a refining and manufacturing operation out there," says Roberts. This is no factory floor but a bedlam of traders and blinking computer screens on Bear, Stearns' trading floor. What are these suspenders-and-tie-clad traders manufacturing? New kinds of securities.

Explains Roberts: "The banks supply us with the raw ore—mortgages, for instance. We package them together, then divide them into new pieces—principal tranches for this investor, interest tranches for that one."

Bear, Stearns' financial factory is one of dozens on Wall Street. It and some of the others have been around for a decade or more, but they have received a mighty boost from the current predicaments of the U.S. banking system. Forced by regulators to get rid of some loans, forced by capital stringencies to unload others, bankers have had to shrink their balance sheets. By their ability to take a simple loan and turn it into something else, Wall Street is adding value, and making big money in the process.

The new business is built partly on technology. In the old days, only the local bank's lending officer could give a loan the constant monitoring it needed. There was no way an investor in, say, Portland, Ore. would want to lend money to a person he had never met in Portland, Me. Today powerful computers can determine prepayment and default risks on pools of thousands of loans bundled together. The brick-and-mortar approach of the traditional bank is being replaced by the chip-and-circuit approach of Wall Street.

All this has added significantly to Wall Street's prospects. Last year its firms raised huge sums of money for business in its traditional ways, selling $76 billion in equity and $208 billion



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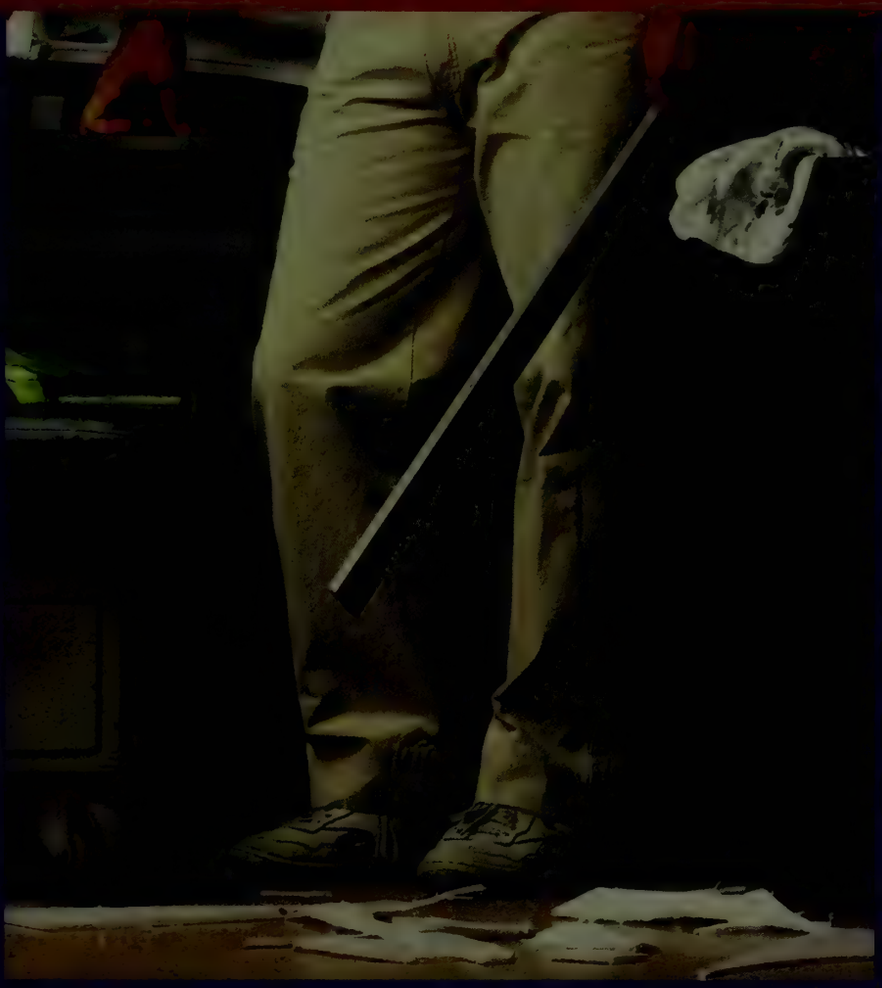

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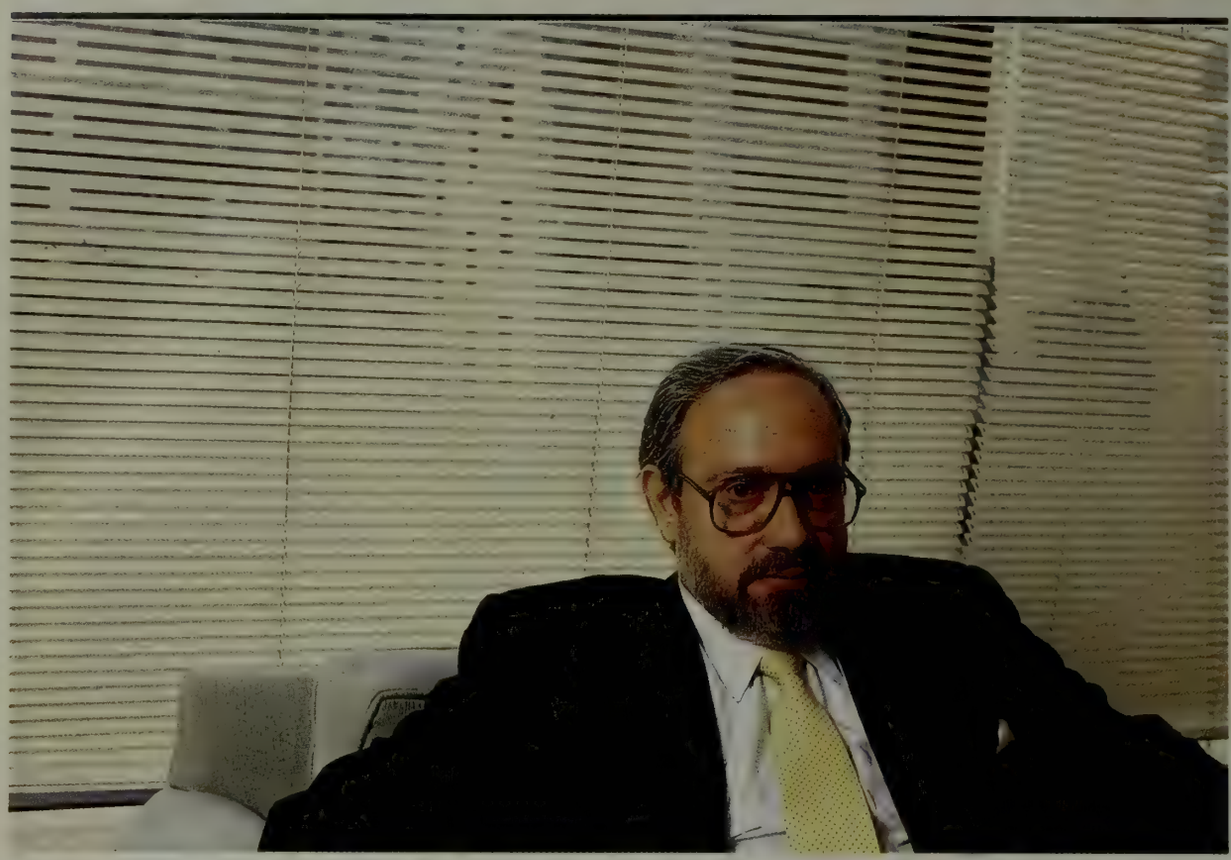

Alan Dorow

Ex-Salomon Brothers trader Lewis Ranieri **Now he buys banks.**

in longer-term debt. But added to that was $299 billion in loans turned into securities: mortgages, packages of credit card receivables, computer leases and recreational vehicle loans—mostly originated by banks and financial companies. That's hundreds of millions of dollars in fees for Wall Street, not counting trading profits.

The impact on the economy and on society is considerable. In the 1974 credit crunch, home buyers could not get a mortgage anywhere because the banks were strapped for funds and had nothing to spare for mortgages. In 1991, amid nationwide recession and local real estate depressions, mortgages were readily available because banks knew that, immediately after originating home loans, they could sell them off for repackaging.

Without that wave of securitization, the 1991 credit crunch might well have been billions of dollars worse. By turning loans and mortgages into marketable securities, Wall Street has found a way to channel money from pension funds and other institutional investors into private lending, using banks simply as originators rather than as providers of capital.

That $299 billion of loans turned into securities in 1991 included more than $200 billion in mortgages, $22 billion in credit card receivables, $17 billion in auto loans, $10 billion in home equity loans, $450 million in recreational vehicle loans, and nascent markets in other kinds of corporate receivables like computer equipment leases. Dean Witter Financial Services Group, including Sears Consumer Finance Corp. and Discover, has originated and securitized more than $6 billion in credit card receivables, recreational vehicle loans and other consumer loans.

The next likely package: commercial real estate loans. This year total securitization could jump 16%, to $350 billion, says Roberts.

In the odd and unpredictable way these things work, regulation meant to strengthen the banks may be helping Wall Street more than the banks. The capital standards set by the Bank for International Settlements, which determine how much capital must lie behind a bank's assets, accord securitized mortgages the lowest risk weighting. But individual mortgages get a much higher risk rating.

So banks are securitizing their mortgage loans as fast as they make them, then buying the securitized pools back from their packagers on Wall Street. In the first half of 1991 commercial banks made $63 billion in mortgage loans, securitized $37 billion of that amount, and bought back $10 billion.

Not surprisingly, the share of financial assets held by banks and thrifts has fallen from 58% in 1974 to 40% in 1991. Pension funds have 30%, mutual funds and insurance companies have just over 10% each, and other holders have the rest. Richard Crawford of Madison Financial Group, a Washington, D.C.-based consulting firm, estimates that the share of financial assets held by banks and thrifts will drop to 35% by 1995 and could fall below 30% by the year 2000.

Instead of fighting the wave of change, many of the smartest banks are riding it. As Robert Grossman, managing director at Fitch Investors Service, puts it: "Banks are becoming marketing organizations, not credit organizations."

Take MBNA Corp., which was spun off from MNC Financial, Inc., the Baltimore banking giant, in January 1991. Although it has no branch offices, MBNA is the nation's third-largest issuer of credit cards. Of its $8.8 billion in total loans, MBNA has securitized 60%.

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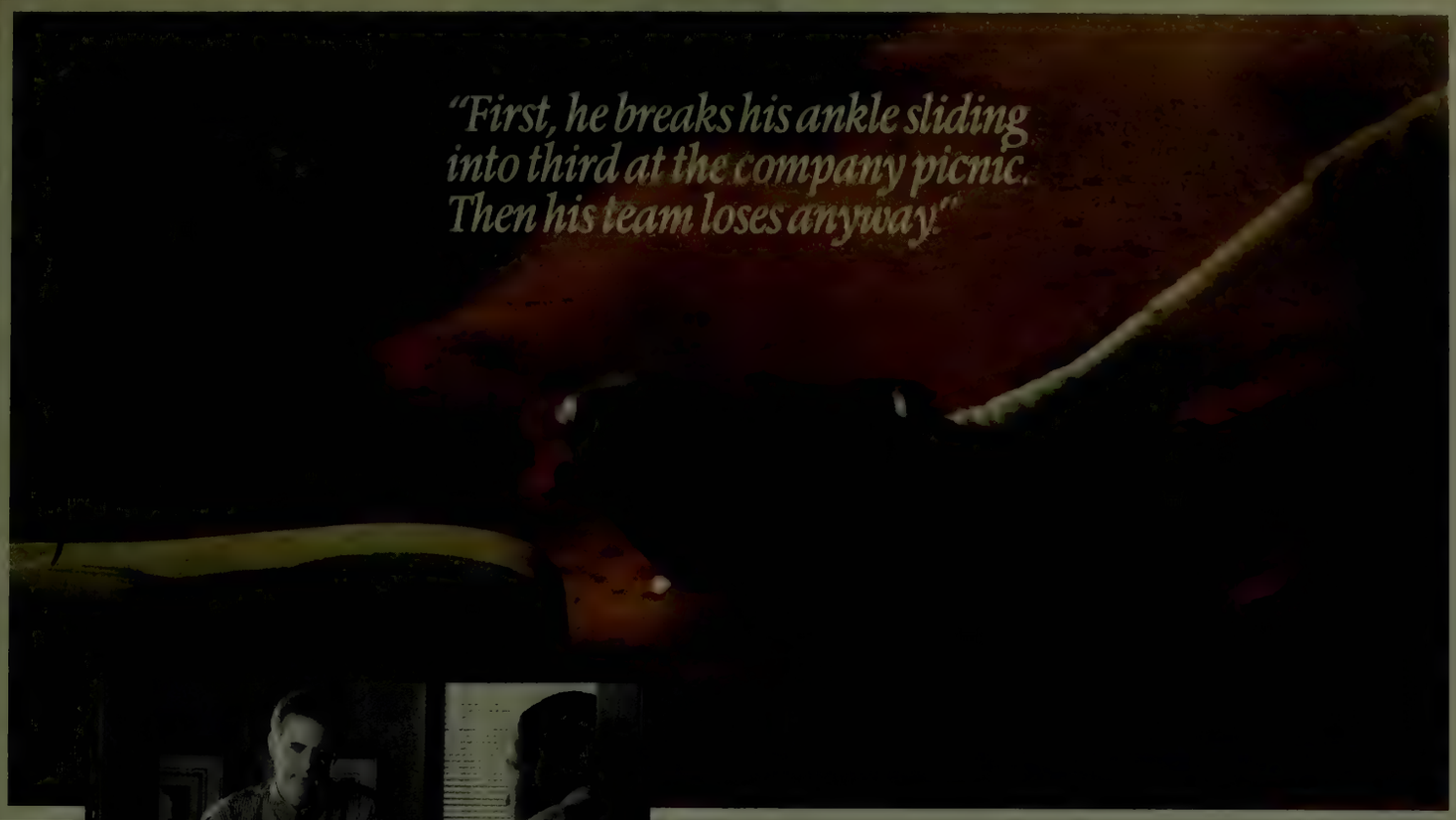

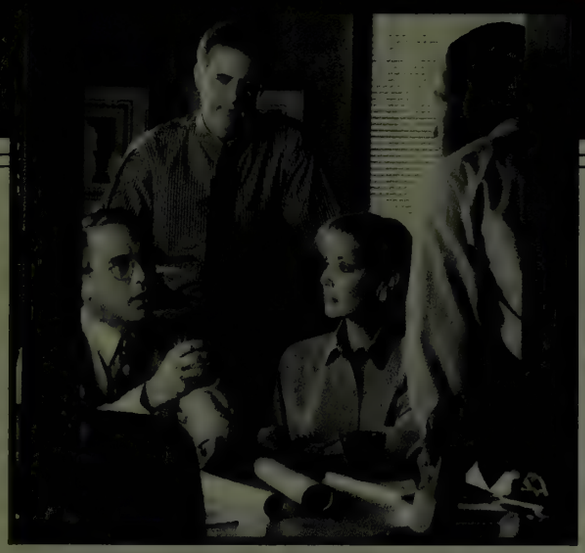

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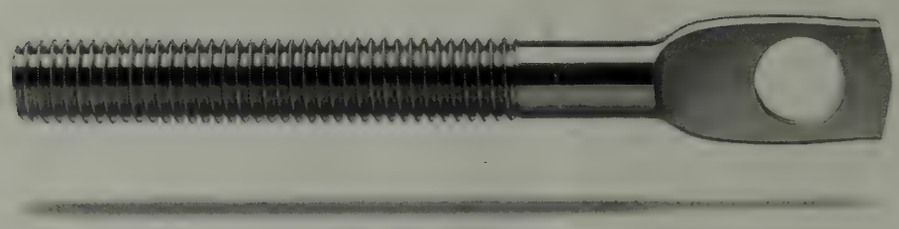

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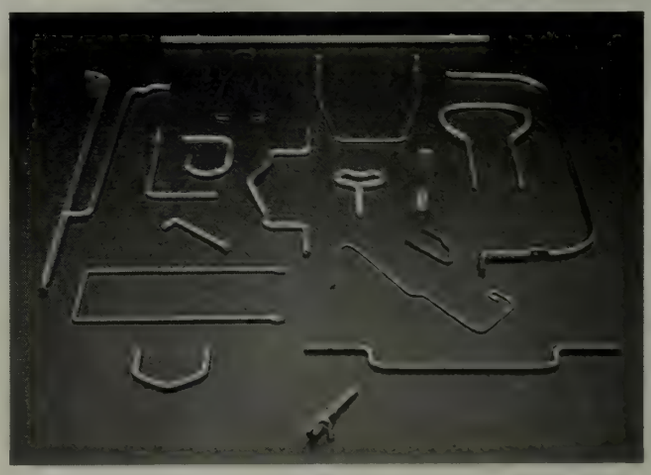

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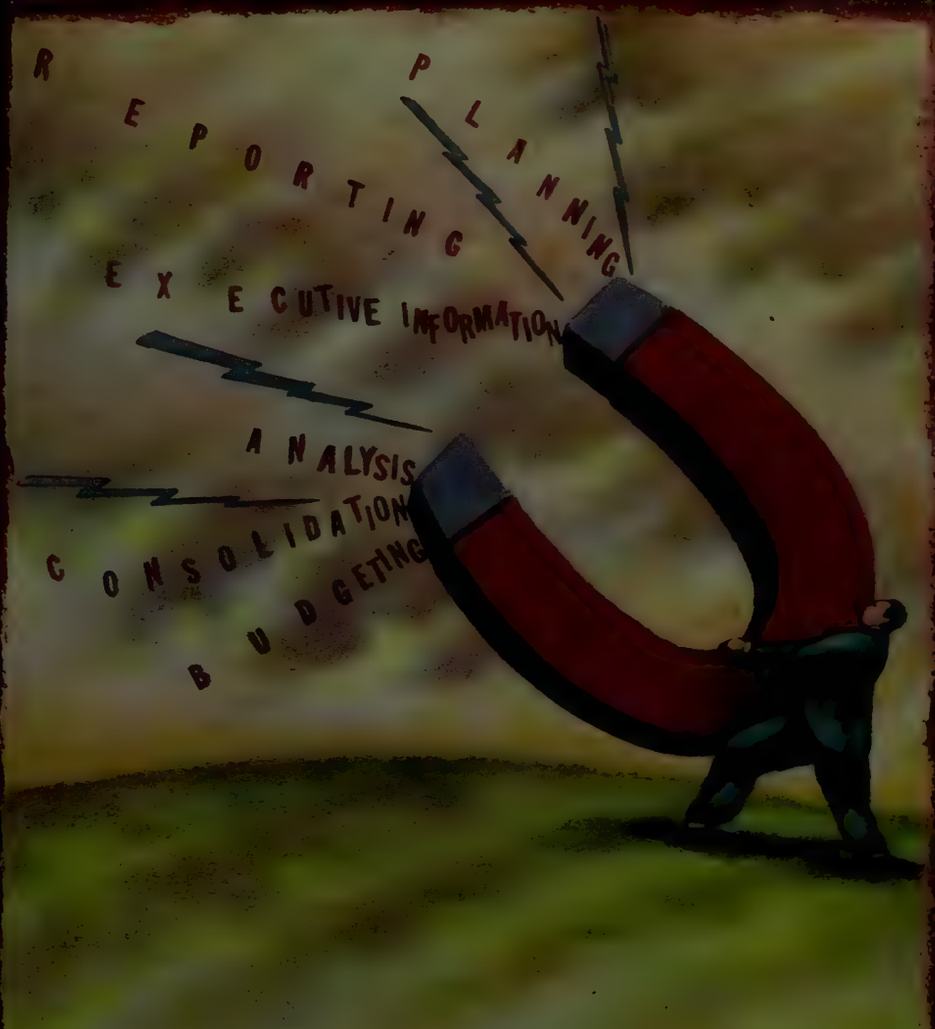
ing, it sells their charges in batches up to $1 billion to trusts it sets up. The trusts issue debt, which is underwritten by such firms as Merrill Lynch and First Boston and sold to institutional investors. The trusts pay the interest with the income generated by the credit card receivables, but MBNA gets them off its balance sheet. All this has helped make MBNA one of the most profitable banks in the country, with 25% return on equity last year. In the process MBNA has generated some $20 million in underwriting fees for Wall Street.

Thus, while Congress fiddles and fudges on banking reform, the markets have done the job for Congress, obsoleting and bypassing the Glass-Steagall Act, which separates commercial banking from investment banking. Already J.P. Morgan and Bankers Trust derive more of their revenues and profits from fee-related activities, such as underwriting securities and trading, than from traditional lending. Merrill Lynch, which holds a spectacular $435 billion in customer assets, also has issued more than $600 million in lines of credit outstanding to small and midsize businesses.

Does all this make J.P. Morgan a broker? Merrill Lynch a bank? The people who drafted the Glass-Steagall Act would have to scratch their heads in perplexity. Lewis Ranieri, the former Salomon Brothers trader who helped pioneer securitized mortgages, labels both kinds of financial institutions "hermaphrodites."

Whatever you call them, they must learn new habits. Ranieri bought 55 bank branches for his Houston-based United Savings Association of Texas and says, "Branches do make you money if you run them right by driving enough products through them—but not if you run them just as deposit outposts." He means, of course, that bank offices can no longer make money simply off the spread between what it costs to attract deposits and what they earn lending out those deposits. They need fees, and originating loans for Wall Street packagers is a lovely way to earn fees without committing capital.

Bank reform? Clearly the free market can do a better job at it than Congress can. ■



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After creating Mexico's top brokerage house, Roberto Hernandez is becoming one of the country's biggest bankers.

"If Cancun is saturated, go to Vera Cruz"

By Thomas Bancroft

Adrian Bodik

ROBERTO HERNANDEZ, now 49, is prominent among the new generation of Mexican entrepreneurs whose dash and flair are the equal of that of their U.S. counterparts. The son of a cattle rancher in the small tropical village of Tuxpan, Hernandez began dabbling in the stock market in the late 1960s after graduating from the Universidad Iberoamericana in Mexico City. By 1971 he had made enough money to found his own brokerage house, Acciones Y Valores, eventually building it into Mexico's largest (FORBES, *Apr. 16, 1990*).

Last month Hernandez and a large group of partners completed the $3.2 billion acquisition from the Mexican government of Banco Nacional de Mexico. Popularly known as Banamex, it is Mexico's largest (assets, $31 billion) and most profitable bank (return on equity, 28%). He and his partner, Alfredo Harp, serve as chairman and chief executive, respectively.

The partners paid 2.6 times book for Banamex—a hefty ratio by U.S. standards but not as much as other Mexican banks have gone for this year in an economy where everything is growing: industry, savings, incomes. Banamex is well positioned. It has 725 branches—second only to Bancomer—and has already cornered more than 30% of Mexico's fast-growing credit card business. Just last month Banamex entered into a joint venture with American Express to issue Gold Cards to Mexican consumers. With deposits of $25 billion, Banamex controls almost 25% of the country's deposit base, including nearly 50% in Mexico City.

As Mexican President Carlos Salinas de Gortari continues to privatize the country's 18 banks, competition will heat up in Mexican banking, and interest rate spreads on commercial loans will probably narrow. Offsetting this, however, there is plenty of fat to cut from the bank's work force of 31,000. "The bank used to operate in a very segmented way, with seven different divisions, all with their own accounting, public relations and per-

Harp (left) and Hernandez
Reaping hefty rewards after buying Mexico's largest bank.

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sonnel departments," says Hernandez. Hernandez and Harp have already fired more than 100 outside consultants and closed more than 20 offices. Total savings so far: about $100 million. Hernandez is personally recruiting new talent. At Stanford University Banamex has established a modest scholarship program for budding Mexican bankers.

Hernandez will need all the talent he can find. As a state-owned bank, Banamex used to be its own biggest customer. By federal regulation, 30% of its deposits were lent to the government. As a consequence of a newly balanced Mexican budget, that percentage will drop to only about 10%. The trick will be to replace the state business with more profitable retail and commercial lending. But this requires new skills.

The business is certainly there. Mexican banks booked 30% more commercial loans in 1991 than they did the year before. Most of that new demand is coming from midsize companies, and here, too, Banamex is well positioned. About 51% of its $19 billion loan portfolio is in loans to companies with sales of $5 million to $30 million. On the retail level, mortgage lending is beginning to take off as well. Already, about 12% of Banamex's loan portfolio is residential mortgages.

To help monitor credit quality while expanding the bank's loan portfolio, Hernandez is improving the bank's sophisticated database, which, among other things, has detailed information on almost every construction project in the country. "I can tell you exactly how many new developments are happening in Hermosillo or Cancun. So if Cancun is now saturated with developments, you go to Vera Cruz," he says. Bad loans? As of December, nonperforming loans equaled 2.6% of total Banamex loans, compared with an average of 4.3% for the large American banks.

So far, so good. In the booming Mexican stock market, the market capitalization of Banacci, the holding company that owns Banamex, Acciones Y Valores and a small foreign-exchange trading company, has grown to over $7 billion, from $5 billion. Hernandez is well on his way to becoming a billionaire.

W.T. Waggoner left behind him a big trust that preserved family peace and assets for nearly seven decades. But no peace lasts forever.

Splitting heirs

By William P. Barrett

COVERING SOME 835 square miles—two-thirds the size of Rhode Island—the W.T. Waggoner Ranch near Vernon, Tex. is the country's biggest one-fence spread. Situated about 190 miles northwest of Dallas, it brims with maybe 20,000 cattle and 800 oil wells, plus cowboys, quarter horses and crops.

Also lots of discontent. For heirs of the W.T. Waggoner Estate are in court fighting a nasty battle.

One branch of the family is led by Electra Waggoner Biggs, 79, W.T.'s granddaughter, the other by her first cousin once removed, Albert Buckman (Bucky) Wharton III, 44. Biggs and Wharton, who live on the ranch, graced the first Forbes Four Hundred list in 1982 but fell off when oil prices crashed. Neither, however, is in much danger of going on welfare.

The Waggoner Ranch is the stuff of Texas legend. W.T. (for William Thomas) and his father, Dan Waggoner, drove cattle from Texas to Kansas, sometimes fighting Indians. They started acquiring the land in the 1870s for $1 an acre. By the early 1900s they had amassed most of their 535,000 acres—plus a good chunk of Fort Worth. "I don't aim to buy it all," W.T. said of his holdings, "just what joins me."

He cursed the turn-of-the-century discovery of oil on the ranch: "I need water." But he mellowed this view after big oilfield finds. As Will Rogers later observed during a visit, "I see there's an oil well for each cow."

The issue that has triggered the current controversy is the usual one: money. FORBES figures that the Waggoner Estate, which also includes an oil services company, helicopters, an airplane and a modest investment portfolio, is worth about $300 million at the current market value. But the estate probably pays out less than $2 million a year in dividends. Such yields are apparently enough to please Biggs and her two daughters, who collectively control 50% of the estate's shares, but reportedly very much irk Wharton, who owns the other 50% and wants to unlock the estate's value.

Will Van Overbeek

Vernon Daily Record

ABOVE: Bucky Wharton
LEFT: Electra Biggs
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Call it also a clash of styles. The glamorous, quite visible Biggs is a noted sculptor, famous for renderings of Knute Rockne and Harry Truman. Her first marriage filled a whole page of *Vogue* in 1933. The Buick Electra and the Lockheed Electra are named for her. Wharton, whose paternal grandfather came from the Philadelphia family that endowed the Wharton School, is cut from a somewhat different cloth. Reserved and disliking publicity, he chairs a small bank in Vernon and has land holdings, plus an oil production company.

W.T. originally deeded much of the ranch to his three surviving children. But they were plagued with domestic problems; the trio would be married a total of 12 times. So in 1923 W.T. persuaded them to put their shares with his into the newly formed Waggoner Estate. A trustee elected by the branches—W.T. himself until his death in 1934—ran the operations. One branch was later bought out.

As a way of preserving wealth, the Waggoner Estate wasn't bad, but times change. The oil is said to be running out, and the estate, technically a business trust, is taxed as a corporation, meaning dividends are effectively taxed twice—an issue said to greatly vex Bucky Wharton.

In 1981 the trust was renewed for 20 years but amended at Wharton's insistence so that either side could dissolve the trust at stated 5-year intervals on 1-year's notice. That was the beginning of the end. In 1989 Wharton forced the ouster of the trustee and in February 1990 gave the 1-year notice, reportedly trying to negotiate a property split.

The division became public last March, when Electra Biggs filed a lawsuit in the Vernon state court seeking appointment of a receiver to wind up the estate and divide or sell off everything. That would deny the financially astute Wharton any right to negotiate for what might be more than a 50% share. Fighting the suit, Wharton has complained in filings that he has been refused access to family documents. The judge seems to be hoping the two sides will work things out. Battling Indians was probably easier than settling things among quarreling heirs. ■

Under pressure from the Bush Administration, the Japanese are now talking of giving new teeth to their trustbusters. Don't hold your breath.

Lip service

By Gale Eisenstodt

BY AND LARGE the Japanese prefer harmony to competition, which is why commerce and industry in Japan are rife with cartels—247 were legally permitted as of last June. After World War II, General Douglas MacArthur introduced antitrust laws to Japan and established an agency to enforce them, Japan's Fair Trade Commission. But neither the laws nor the agency took root. "Intellectually, antitrust laws were seen as very American," says Hiroya Ichikawa, a director at Keidanren, the preeminent organization for Japanese big business. "We didn't like the concept."

Is this about to change? There are a few promising signs. As part of the latest round of let's-get-tough-with-Japan, Bush Administration trade officials have been telling the Japanese that part of the price of trading freely with the U.S. is better enforcement of their antitrust laws—otherwise the U.S. says it might use its tough trade laws against Japanese cartels that block U.S. exports. The message hasn't fallen entirely on deaf ears. Even Keidanren's Ichikawa publicly acknowledges that Japan must modify its ways to encourage more fair competition, and Japan's Fair Trade Commission has offered up a string of corporate scalps.

The JFTC puts a surcharge on cartels that it believes are making excessive profits. In the fiscal year ended in March 1991, the commission surcharged 175 companies a total of $97 million, up from 54 companies and $6 million the previous year and $3 million in fines in 1988.

Last July the JFTC issued tougher guidelines for enforcement of the law. In November the JFTC filed its first criminal complaint in 17 years when it charged eight major chemical firms with price-fixing. The commission has also cracked down on Japan's four beer brewers, long known for price-fixing. Now discount liquor stores are starting to flourish. The JFTC is talking about ending the legal price-fixing on certain cosmetics and over-the-counter drugs that help keep Japan's inefficient mom-and-pop stores in business.

Jean-Francois Allaux

But in all likelihood these moves are little more than window dressing, aimed at avoiding serious antitrust action. Noting that cartels are part of Japan's history, Norifumi Tateishi, a lawyer with Anderson Mori in Tokyo, warns: "Industries will make surface changes [to appease the JFTC], but sooner or later they will go back to how they used to be."

Japanese politicians certainly like the status quo. The cartel-ridden construction industry is a giant contributor of cash to the ruling Liberal Democratic Party. Last year the LDP blocked the JFTC's proposal to raise penalties for more serious criminal violations from today's trivial maximum of $38,000 (U.S. top fines are $10 million) to at least $770,000, partly as a result of construction industry lobbying. The JFTC has revived its efforts to increase penalties.

Another obstacle to change: Japan's powerful and backward-looking Finance Ministry, which exerts great sway over the JFTC. Most of the JFTC's chairmen have come from the Ministry of Finance. Critics say it was strong Finance Ministry influence that explains why the JFTC only recently began probing the scandal-ridden banks and security firms for collusive behavior.

The JFTC will likely treat Japan's cozy *keiretsu* (industrial groupings) with kid gloves. *Keiretsu* are considered a key factor behind the country's economic success. And whether the JFTC will reverse its protectionist stand and be less biased in favor of Japanese companies when it reviews international licensing agreements remains to be seen. Complains John Stern, head of the American Electronics Association's office in Tokyo: "The JFTC has been a primary force in making U.S. companies hand over intellectual property at paltry royalty rates."

Tsuyoshi Motonaga, a JFTC investigation division chief, insists his countrymen really are getting serious about heeding antitrust laws. "Japanese," says Motonaga, "are more aware now that cartels aren't good and that competition should be fair." For Japanese consumers, that may be true. But Japan is still largely a producers' society. As long as producers have more power than consumers, the country is unlikely to pay more than lip service to antitrust. ■

Are Hispanics rejecting the American melting pot? Their leaders say yes, but the facts suggest otherwise.

The fracturing of America

By Peter Brimelow

"WITHIN TEN YEARS there will not be a word of English spoken [in Miami] . . . one day residents will have to learn Spanish or leave."

With a few months left to run, this 1982 prediction by Miami's then mayor, Maurice Ferré, may not have come true . . . quite. But Linda Chavez finds that Florida sales clerks now invariably respond to her sparkling dark eyes and glossy black hair with Spanish salutations—or point silently, and perhaps sullenly, at the appropriate price.

Chavez, 44, a former aide in the Reagan and Carter White Houses and a former teachers union official to boot, is now a senior fellow with New York's Manhattan Institute think tank. Her recent book *Out of the Barrio: Toward a New Politics of Hispanic Assimilation* (Basic Books) announces good news: The bad news about her fellow Hispanics is wrong. They are assimilating, economically and even linguistically, ex-mayor Ferré notwithstanding.

The bad news: No one wants to know the good news—especially Hispanic leaders, but also some allegedly conservative politicians, and even corporations.

The Hispanic presence in the U.S. has surged since the 1965 Immigration Act, which reoriented U.S. immigration intake away from its traditional European sources. About 40% of the 13.5 million legal immigrants in the last three decades have been Hispanics. Officially, a total of some 20 million Hispanics now live in the U.S., about 9% of the population, up from less than 3% in 1950. Additionally, an estimated 3.5 million live here illegally. Some demographers project that Hispanics will be a third of the U.S. population within 100 years *(see chart)*.

Will this big chunk of immigrants follow the traditional path and become Americanized? "We cannot assimilate—and we won't!" This slogan, Chavez reports, came from Arnold Torres, former executive director of the League of United Latin American Citizens, in a debate with her at Stanford. She says it represents a wide consensus among officials in Hispanic organizations.

Statistics appear to provide support for the view that Hispanics are different. Thus, median income of Mexican-Americans in the Southwest—the largest element in the Hispanic community—was 57% of non-Hispanic median income in 1959, and exactly the same percentage in 1989. Education, earnings, poverty rates and other indicators are also static.

So why is Chavez optimistic about integration? There is, she points out, a major factor distorting these statistics: the wave of unskilled, uneducated immigrants that has swamped the established Mexican-American community in particular. (Indeed, the most recent "Mexican" arrivals are ethnic Indians who cannot properly be called Hispanic because they do

Katherine Lambert

Manhattan Institute's Linda Chavez

She thinks "Hispanics" are assimilating economically and linguistically.

not even speak Spanish.)

Analyzing unpublished government data, Chavez found that weekly earnings for U.S.-born Mexican-Americans were 83% of non-Hispanics'—and that adjusted for other factors, like education, region of residence and experience, the difference virtually disappeared. Similarly, U.S.-born Hispanics seem to be converging with non-Hispanics in education levels. Some researchers claim the pace of educational convergence slows with the third generation—but Chavez says this is exactly the pattern that previous immigrant groups followed.

About a quarter of all Hispanics do live in poverty, twice the proportion of the general population. But again, poverty levels among U.S.-born Hispanics are significantly lower. In fact, according to the Bureau of the Census, a striking 42% of all Hispanics owned or were buying their own homes in 1989.

A second factor distorting Hispanic statistics: There are, actually, no "Hispanics." It's a catchall category invented by the Census Bureau under political pressure from "Hispanic" politicians ambitious to increase their leverage on Washington. It covers some very disparate groups.

For example, the economic success of Cubans is widely acknowledged: Cuban males overall earn about 90% of what non-Hispanics do and females actually earn more than non-Hispanics—although, as Chavez notes, the Cuban influx has not been as uniformly high-skilled as popularly supposed. Less appreciated is the relative success of Dominicans. They make up 40% of New York's Hispanics, but own 70% of the Hispanic small businesses and enjoy average incomes 30% higher than Puerto Ricans'.

The status of Puerto Ricans is somewhat surprising. They are the only Hispanic group that shows signs of developing into a permanent underclass—a paradox, since as U.S. citizens they are the only Hispanic group that automatically qualifies for benefits. In New York, where more than half of U.S. Puerto Ricans live, they have higher welfare participation rates than any other group. "They have been smothered by entitlements," writes Chavez, "which should serve as a warning to other Hispanics." Outside of New York, where social programs are not as developed, Puerto Ricans do significantly better.

The ultimate indicator of Hispanic assimilation: In California more than half of all Mexican-Americans marry non-Hispanics. By the third generation, Chavez says, most Hispanic Americans speak only English, as she does herself. (Which is why Spanish-language advertising strategies are being questioned; see FORBES, *Dec. 23, 1991.*)

Chavez is optimistic about the capacity of the U.S. to assimilate Hispanics—and all of the current influx of immigrants. But, she says, "It's not something that can't be wrecked with the wrong policies."

Foremost among these wrong policies: bilingual education, or the idea that linguistic minorities can be introduced to English and education only in their own tongue rather than being plunged into the mainstream.

Although contrary to historic American practice and a mounting body of research findings, bilingual education has been institutionalized since the 1960s through a combination of judicial rulings, federal bureaucratic pressure and lobbying from the burgeoning bilingualism establishment. Increasingly, it is justified, not as a transitional measure, but as "cultural maintenance." Often it is imposed on Hispanic children even if they can speak English. The Washington, D.C. public school system placed Chavez's son in bilingual classes, apparently on the basis of his name, even though he can speak no Spanish at all.

Opinion polls show Hispanics generally more conservative and willing to learn English than their leaders—who, Chavez points out, are financed largely by non-Hispanic sources like the Ford Foundation. Certainly some of the leaders' reactions to her book have been hysterical. She has been prevented from speaking on college campuses and even assaulted.

Nevertheless, the Bush Administration is listening to these leaders, even though their standing is in question within the communities they claim to represent. The Administration has allowed the drift to bilingualism to resume—for example, appointing Rita Esquivel director of the Office of Bilingual Education.

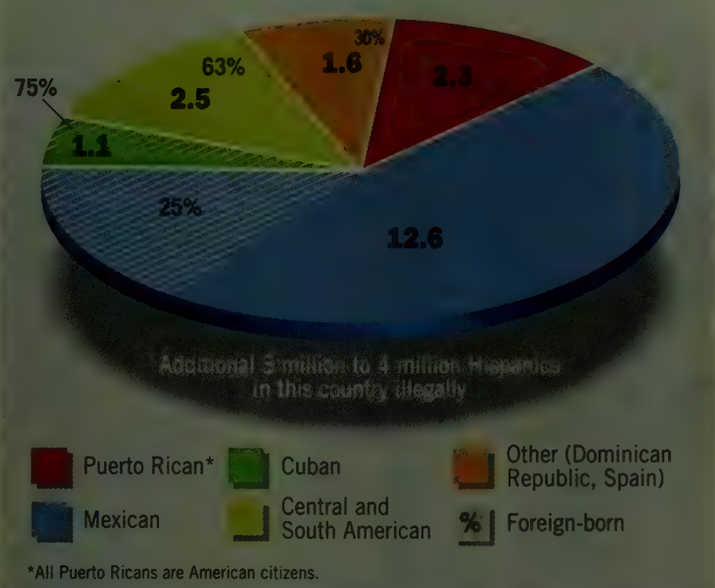
But big corporations are equally misguided, Chavez says. She reports that, while she gets calls from corporations about their Hispanic hiring, "They give me the cold shoulder when they realize where I'm coming from. The personnel departments are full of affirmative action types."

She doesn't care. "I don't want to be a professional Hispanic," she says.

Shortly, Chavez is to become director of the Manhattan Institute's Center for the New American Community, which will study the common heritage threatened by what she calls multiculturalism's "fracturing of America."

Are there any "Hispanics"?

Total 1989 U.S. legal Hispanic population (millions): 20.1



*All Puerto Ricans are American citizens.

Sources: Data for legal Hispanic population from U.S. Census Reports; INS Statistical Yearbook

As the chart shows, there are no "Hispanics." The catchall category, invented under political pressure, covers such disparate groups as Mexicans, Cubans and Puerto Ricans.

What should the IRS do with a tax deadbeat? Hound him for the rest of his life? Or make a deal and cut its losses?

How to get some blood out of a turnip

By Janet Novack

In 1985 the Internal Revenue Service assessed Chicago lawyer John W. Noble Jr. $208,000 in back taxes, penalties and interest. Noble, now 61, didn't have that much money or assets. He proposed paying all but the penalties in installments and being excused from the penalties. No dice, said the IRS.

But that's not the end of the story. Three years later, when interest on interest had jacked the debt to $285,000, Nolan made the IRS a formal "offer-in-compromise," in which he suggested that he liquidate his assets and pay the IRS $220,000 by the end of 1990 in full settlement.

For a year and a half, silence from the IRS. By the time the IRS finally agreed to cut a deal with Noble this January the bill had grown to $386,000. The deal was this: Noble would pay $150,000 plus $1,000 a month for 30 months. At the 9% interest rate the IRS now charges debtors, the net present value of the settlement was $176,900. In effect, Noble was forgiven over half his debt.

Too lenient? Or not lenient enough? It's a hard call. There are two basic philosophies of enforcement by tax collectors. One is what might be called the loan-shark theory: If the fellow doesn't pay on time, break his arms. The IRS equivalent of this would be to seize the taxpayer's assets, including his bank accounts, most of his paycheck and his business if there is one. The seizure would likely render the delinquent less willing or able to earn money to pay off any deficiency. It would, however, send a message to everybody else who might get behind on his or her payments.

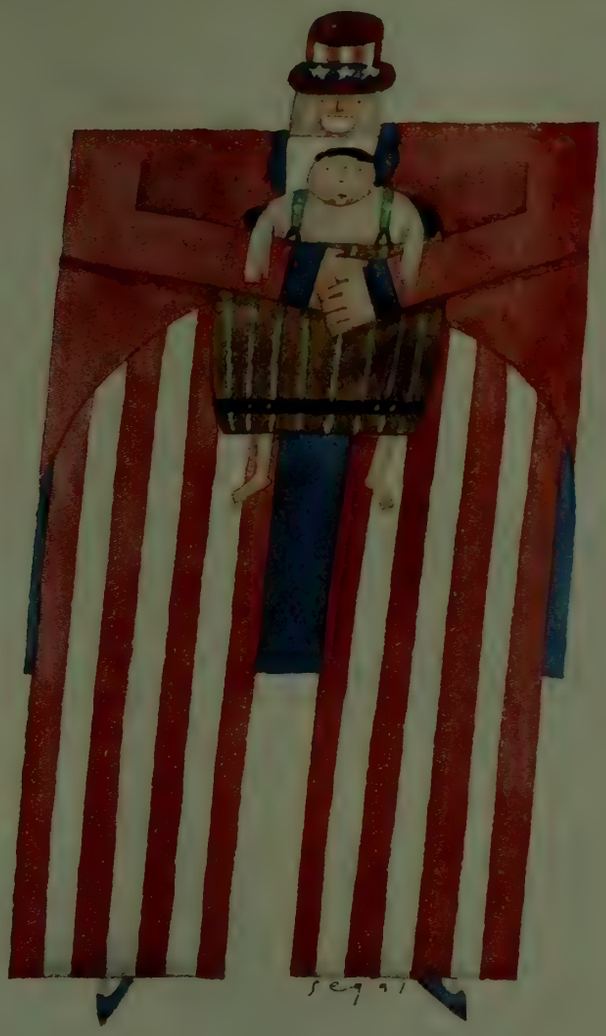
But in a new tack, the IRS is now acknowledging that padlocking the door isn't always the most effective way to get its money. Tradesmen who get behind on their taxes will not sit passively and allow the IRS to confiscate most of the dollars they earn; instead, they will work off the books and the IRS will collect nothing. Small businessmen who go bankrupt and are held personally liable for penalties for unpaid payroll taxes sometimes will work for new businesses owned by their spouses.

Is this the dawn of a new gentler and kinder era at the IRS? Not exactly. Call it pragmatism. The collection

officer plays tough, but is willing to settle. And with accounts receivable up 15% in 1991, to $111 billion, the IRS wants to do more deals, more quickly. "The potential from offers in compromise is absolutely in the billions," says Joseph Kump, who is accounts receivable executive officer for the IRS. "We would rather get some money up front and get the person back to a compliant status than drive them underground."

A lot of revenue officers, however, may not be receptive to this new message. Some indication of how hostile the officers are to settling for less than the amount due can be gleaned from these statistics: In fiscal year 1991, the IRS accepted only one in four of the 8,100 offers-in-compromise it disposed of, for a grand total of $37 million. This from a population of 9.6 million individual and business filers owing back taxes.

Compounding this don't-settle mind-set has been the red tape involved. Until recently, IRS officers even counted the change in a taxpayer's pocket and inspected his furniture before agreeing to settle for less than 100 cents on the dollar. "At the time of the interview, Mr. DeWeese had $15 on his person," reads one officer's report from the Baltimore district.



There also has been great variation in practices from district to district. As part of his tough settlement, for the next five years one New York cabbie is required to pay 50% of any annual income over $15,000 he has left after the payment of regular federal income taxes. In contrast, the IRS' Baltimore office rarely has demanded a piece of future earnings. It settled with the owners of a tax return preparation service who owed $39,400 for $7,500 and no part of future earnings.

Under the new pragmatism the IRS is instructing its officers to be less petty and is reducing red tape. No more haggling over pocket change and furniture. But don't confuse this with leniency, since the IRS still wants, before it will settle, what it could get by liquidating a taxpayer, and then some. It's rather a recognition that you sometimes get more out of a person by leaving him a margin to live on than by continuing, year after year, to strip him bare. And like a parole officer, the IRS is now going to require taxpayers doing deals to stay current with their future regular taxes for five years. If they don't, the original debts plus accrued interest come back to haunt them.

Often, in settling, the IRS gets assets it otherwise couldn't touch—perhaps because they are in a relative's name—or would have to fight to recover. Example: An 80-year-old New Yorker, incapacitated by a stroke, gave away his main asset, 50% of an 11-room, 8-acre Rockland County estate (with tennis court and pool), after he was assessed back taxes by the IRS. The IRS settled his debt, which had grown to $1.3 million, for $177,600, but if this sounds lenient it really wasn't: It came to about what the IRS might have gotten if it had gone to court, been awarded 50% of the property and sold it in a fire sale.

In another change, the IRS will sometimes allow an operating business, not in bankruptcy, to negotiate unpaid Social Security, Medicare and withholding taxes. The IRS is linking this change to a push to catch payroll delinquents early, before their debts are overwhelming.

John Nolan is an example of the taxpayer the IRS' pragmatists hope to get something out of before it's too late. Nolan is president of Annapolis-based Programmed Security Inc., which installs and monitors burglar and fire alarms. He negotiated a deal with the IRS last year, nine years after the firm first fell behind on payroll taxes and two years after it pulled out of bankruptcy. Nolan is supposed to pay $266,400 (which he's still trying to raise) on a $562,000 debt. Had the government not compromised, it is unlikely that Nolan's firm could ever recover.

Shirley Peterson, the new IRS commissioner, summarizes the new collections approach this way: "You can't get blood out of a turnip, and if we're dealing with a turnip, then we're better off cutting our losses and moving on." ■

Thanks to a new accounting rule on corporate taxes, some companies will soon look much healthier. Underline "look."

Cosmetics

By Mary Beth Grover

AMERICAN EXPRESS, Citicorp, IBM and some other big companies may soon report some surprisingly good numbers. But read the footnotes carefully. Much of the good news will come not from any fundamental change in operating results, but from accounting changes.

At issue here is the difference between the books companies keep for the Internal Revenue Service, and the books the accountants prepare for shareholders. When a bank, say, adds to its reserves for bad loans, the IRS refuses to allow the bank to take the amount as a tax deduction until the loans actually go bad—the deduction, in other words, must be deferred. This increases the bank's current tax bill.

By contrast, the accountants make the bank deduct the loan loss reserve addition from reported earnings the minute the addition is made. No deferral of the accounting charge. So the bank has to pay more taxes, and report less earnings.

Alas! The IRS isn't changing its rules. But the accountants are reforming theirs. Last month the Norwalk, Conn.-based Financial Accounting Standards Board decreed that banks and other financial institutions can, in effect, get credit today for tax deductions the IRS won't let them take until sometime in the future. The immediate impact will be to boost net income and shareholders' equity.

The accounting is complicated, but to oversimplify a bit: Suppose a bank adds $1 million to its bad debt reserve. A few years from now the IRS will let the bank take that $1 million deduction when the loan goes bad, saving the bank $340,000 in taxes. What the FASB's new rule does is to allow the bank to add the value of the $340,000 tax credit into income and equity—at the same time that the $1 million charge against earnings is made. Reported profits will no longer often have to wait years to reflect the tax savings.

Jean François Allaix

Banks aren't the only beneficiaries. So are companies that must take charges against earnings to fund big reserves for retiree health benefits.

Some big numbers are involved here. Take a look at IBM, which reported a $2.8 billion loss last year. Much of that was the result of a first-quarter $2.3 billion charge for retiree health benefits. Under the new rules, IBM can begin to record the tax credits associated with the future deductions right now. So, because of last year's retiree hit, IBM could add in the neighborhood of $700 million to its after-tax earnings as early as the first quarter of this year. That's over $1 per share. In addition, IBM has about $1.3 billion in deferred tax assets.

Corporations can also choose to adopt the new rule in their 1991 year-end statements. General Motors conveniently took advantage of this option. Without the accounting change, GM's $4.5 billion loss last year would have been $233 million more, and earnings per common share would have been 38 cents less.

American Express has over $200 million in unrecognized tax benefits to take into income. AmEx expects to recognize these benefits in its first-quarter earnings, boosting net income by 42 cents a share.

Chemical Banking and Chase Manhattan Bank have $1 billion and $700 million in unutilized tax benefits, respectively. Citicorp has some $1.4 billion in unrecognized tax benefits—equivalent to $3.45 per fully diluted share. Citicorp hasn't decided how much of this credit to report as income or when to report it.

Ernst & Young partner Norman Strauss doubts that auditors will allow unprofitable banks to take all their unrealized loan loss tax credits into income in one fell swoop. But even if Citicorp were allowed to add back into income half of its $1.4 billion in unrealized tax credits, that would add enough retained earnings to Citicorp's capital account to help enable the bank to meet its regulatory requirements this year.

Which raises an interesting question. Under the FASB's ruling, these additions to earnings will also augment shareholders' equity—the basis of the banks' statutory capital accounts. But remember: The IRS hasn't changed its rules; there is no real cash flow improvement in these businesses, only improved earnings reports. Says Keefe, Bruyette & Woods' banking analyst Kenneth Puglisi: "I don't know how well it will sit with the regulators that someone in Connecticut is creating capital with a stroke of a pen." Good point. ■

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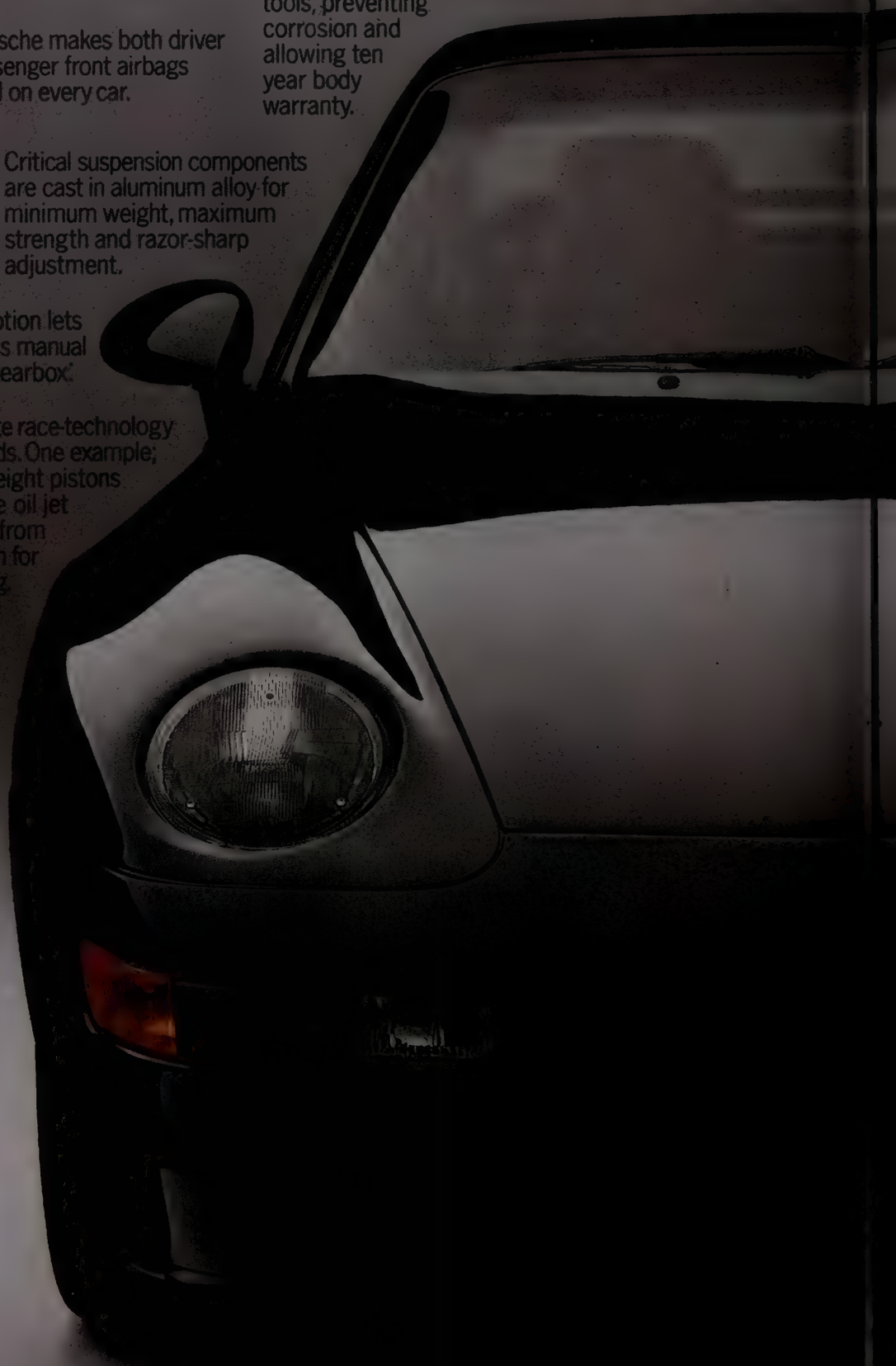

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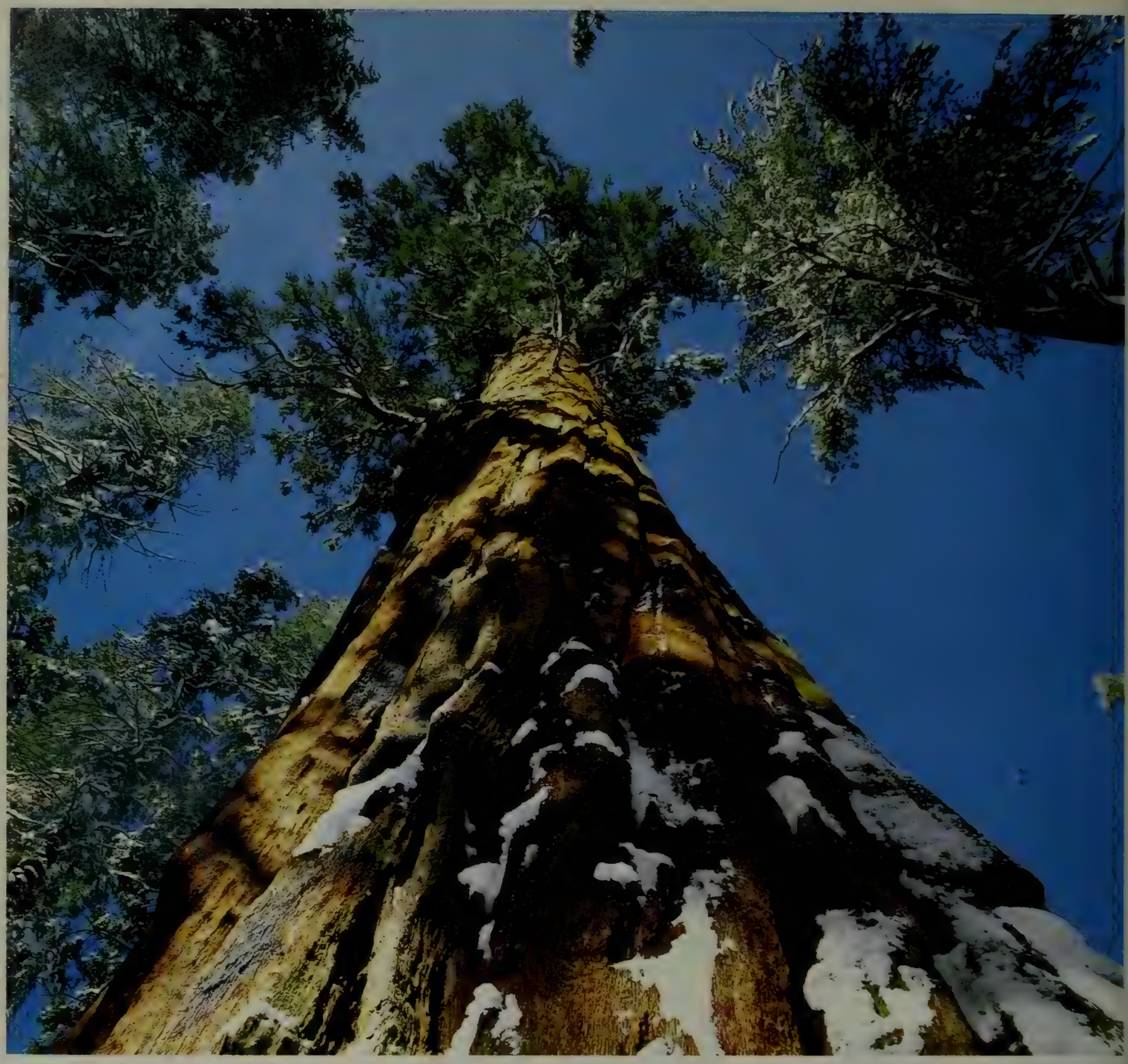

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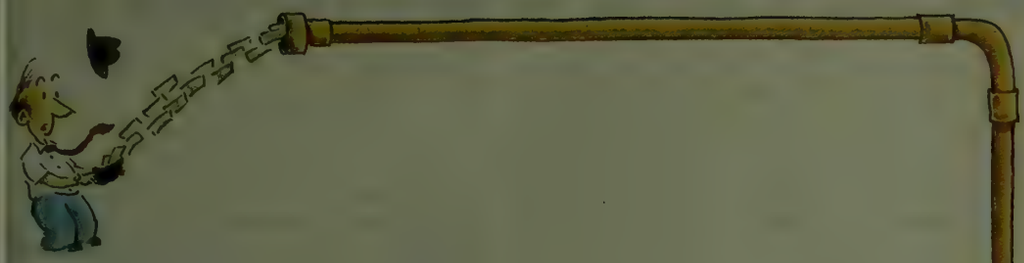
If your company bought a lot of fabricated specialty pipe on a cost-plus basis over the past two decades, call your lawyer if you haven't already done so.

Bent pipe

By William P. Barrett



ITS FORMAL NAME was the Pipe Fabrication Institute, a trade group representing companies that molded specialty metal for big construction projects—power plants and the like. But many pipe fabricators joked that its initials really stood for the Price Fixing Institute.

Why? The now defunct organization was part of one of the longest-running and best-documented price-fixing conspiracies on record—colorful details of which are emerging only now. For upwards of two decades steel-pipe fabricators and the middlemen who supplied them conspired to rip off customers for what looks like about $150 million in rigged charges. That's the equivalent of $265 million in today's dollars. An internal audit from one culpable company, a unit of what became Allied-Signal, bluntly called the price-rigging "a common and consistent practice throughout our industry." Civil claims are still unresolved.

Here's how the scam worked: Big steel mills, which haven't been implicated, manufactured steel products and sold them to distributors, or suppliers, who would sell to fabricators. End users—among them refineries and petrochemical facilities besides power plants—would buy special-order product from the fabricator in large amounts on a cost-plus basis: the cost charged by the distributor, plus a markup to account for the fabricator's added value. The distributor would corruptly inflate the bill—the "cost" in cost-plus—by an average 20% to 25%, and then split the gain with the fabricator.

According to court documents, the conspiracy involved virtually all the steel fabricators and distributors across the country that handled big, cost-plus contracts—a fairly narrow but lucrative niche. So tightly knit was this segment of the fabricated-pipe business that the few firms that worried about the legality of the pricing were afraid they would be frozen out or lose market share if they went legitimate.

The distributors and fabricators were creative. Sometimes a single purchase would be routed through a string of suppliers, each artificially boosting the price. In some cases dummy companies were set up to launder the kickbacks. But one middleman testified he passed a briefcase containing $200,000 in unlaundered cash to the president of a Houston fabricator. Another distributor said he shipped a truckload of big televisions to his fabricator/customer as a kickback.

Other gifts mentioned in frequently vivid pretrial testimony within the past year in Houston: expensive wristwatches, fancy vacations, backyard swimming pools and the services of "lots of prostitutes." The kickback accounts were hidden from the auditors under such fictitious account names as "Class A distributor discounts," "Code 15" and "volume discounts." Often, records were kept in loose-leaf notebooks and compared with coconspirators during regular visits.

The 20-year charade started to unravel in the mid-1980s with probes into pipe sold to the troubled Washington Public Power Supply System. But untangling and cleaning up the mess has taken time. In late January, for example, ailing Dravo Corp. became the latest of about a dozen companies to be convicted of criminal activity. Pittsburgh-based Dravo pleaded guilty to a felony mail-fraud count in Greeneville, Tenn. for inflating prices on $136,000 worth of pipe sold to an Eastman Kodak unit. Other companies that have paid money damages or pleaded guilty include units of ITT, Allied-Signal, Blount Co. and Johnson Controls. A handful of employees have gone to jail.

In the last two years about 30 distributors and fabricators have paid a total of $45 million to settle one class-action antitrust lawsuit in Houston. Beneficiaries include such big pipe customers as Exxon and Shell. Still outstanding are known claims of another $100 million. ■

Jeff Moores

Tired of gloom and doom in the press and on the tube? Weary of politicians who say that unless you elect them the U.S. will go down the drain? Come visit with us the sunny uplands of the boom in U.S. exports.

The world's most competitive economy

By Howard Banks

IF ONE WERE to judge the state of the economy purely by the rhetoric in the presidential primaries, the conclusion would have to be that the U.S was an economic disaster. Factories closing. Consumers gloomy. Productivity lousy compared with Japan's. So elect me and I'll salvage the economy and save your jobs.

But why isn't anyone talking about what's happening to the trade deficit, the worry that so exercises politicians, TV newsreaders and newspaper headline writers? It must be that these newsmakers and news processors think the public doesn't like good news. Because the news from the trade front is very good indeed.

In overall trade, the U.S. had a record deficit of $146 billion in 1987 *(see chart)*. In 1990 the gap was down to $70 billion. But by the close of 1991, the trade deficit was $7 billion—a nothing number in a $6 trillion economy.

It is also nothing like any trade number thrown around by politicians, who mostly concern themselves with merchandise trade. But even here U.S. exports have been growing an average of 9.5% a year since 1985, much faster than the growth in imports. This has cut the U.S. trade deficit in merchandise goods by almost $95 billion since 1987.

In merchandise goods, including the cost of importing oil, the U.S. last year still ran a fair-size deficit—$66.8 billion. But this is 1992, not 1952. These days not all trade is in manufactured goods. The overall balance reflects two other major items in trade. Last year the U.S. had a $49.5 billion surplus in services, from the sale of such things as custom software, movies, insurance, and travel and tourism. It also had a surplus in net investment income, of around $10 billion.

What's that about the U.S. not being competitive?

Management seer Peter Drucker, who has a knack for seeing big trends before other people do, recently said: "What's already happened to U.S. trade performance, especially in manufacturing, is unprecedented."

It may profit the presidential hopefuls to peddle gloom so that they can promise to fix it, but listen to Martin N. Baily, professor of economics at the University of Maryland : "What else do you expect, with the U.S. now the world's low-cost producer?"

Low-cost? Three factors have combined to bring about this little-acknowledged fact.

One, since the 1985 Plaza Agreement by the Group of Seven major industrial countries, the value of the dollar has fallen by around a third in trade-weighted terms.

Two, U.S. productivity in manufacturing has been rising strongly since 1982.

Three, U.S. wages increased only 3% a year in current dollars between 1982 and 1990. By contrast, German wages rose 9.7% a year, Japanese 10.5% a year.

The result is that per unit of output, U.S. manufacturing labor costs have gone down in real, inflation-adjusted, terms by 7% since 1982, according to the Organisation for Economic Co-operation & Development in Paris. On the same basis, the OECD says that average unit labor costs for the eight other top industrial economies rose by over 45% in the same period.

You can turn that into gloom if you want: It means U.S. workers no longer have the same wide edge in standard of living they once had over workers in other advanced countries. But the other side of that is that consumers in the other countries can now afford to buy more imported goods—and the U.S. is getting its share of those dollars. If jobs are the issue—and they seem very much to be—a job making goods for export is at least as good as a job making goods for domestic consumption.

The U.S. economy is now so highly competitive with the rest of the world that in Europe there are already the first rumbles of complaint about the American export juggernaut. Last year the U.S. ran a $16 billion merchandise trade surplus with Europe. In 1986 it was a $23 billion deficit.

What accounts for such a swing? The devastating pain of the early 1980s, the shakeout of weak companies with bad management and poor products—and the unemployment that inevitably followed—has been like a blast of pure oxygen to the economy. Productivity in manufacturing has been increasing at 3.1% a year on average since 1983. That is faster than in all other industrialized countries, with the exception of Britain (coming back from depression levels). Japan, with a proportionally higher investment level, managed about the same improvement, but from a much lower base.

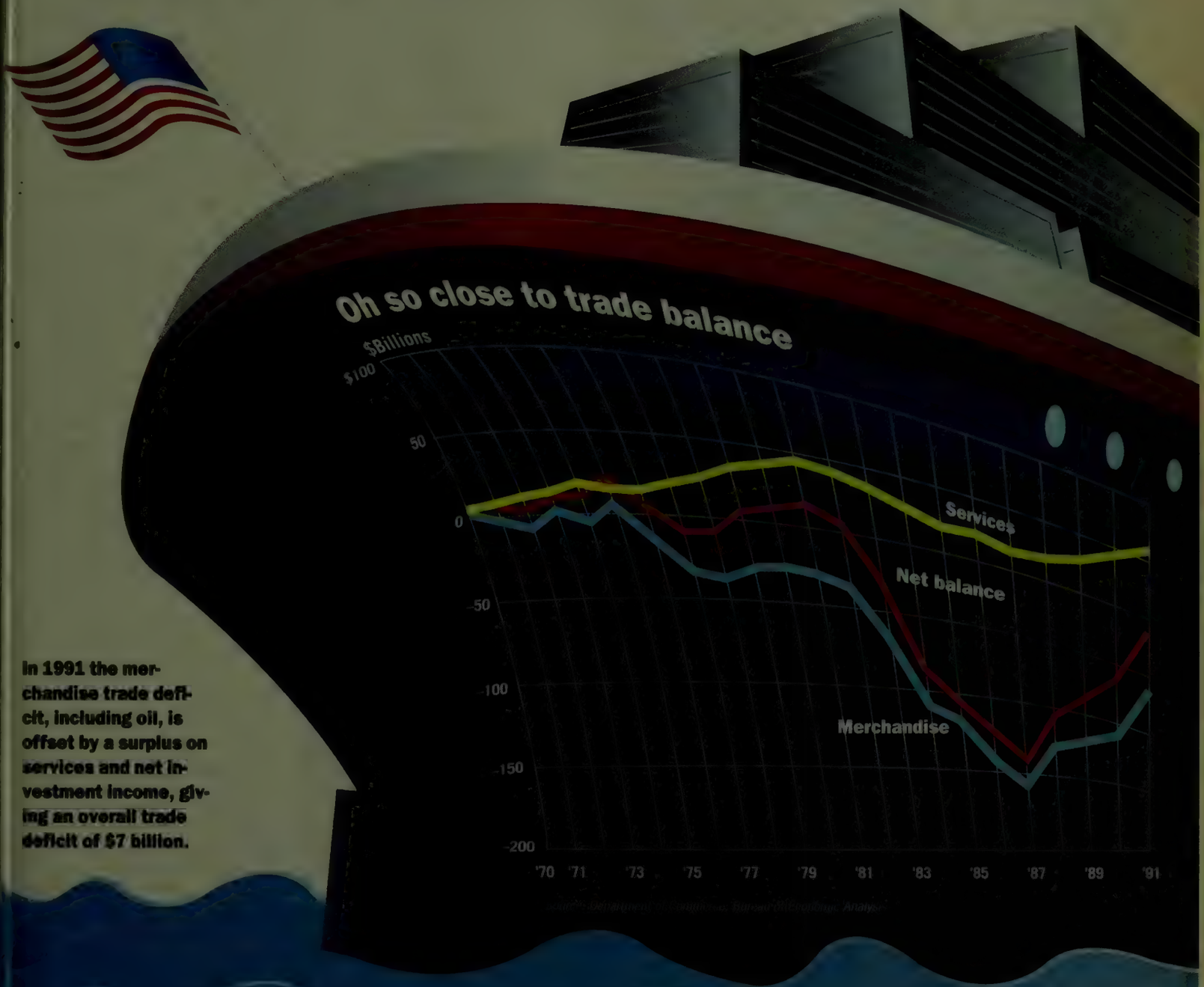
Is it possible that the recent improvement in the trade figures owes primarily to the recession—that once the economy recovers, imports will again jump and U.S. business people will slip back into the easier job of selling to fellow Americans? "No, no, no, no, no!" says General Electric Co.'s Jack Welch, and the present chairman of the Business Council. "We're all globalists now, and we are staying that way."

Other Forbes 500s executives echo his view. Says United Technologies Corp.'s chairman and chief executive, Robert F. Daniell: "We must export to grow. And companies that export heavily have learned that when one country or market is down, another will be up." A.D. (Pete) Correll, president and chief operating officer of papermaker Georgia-Pacific Corp., chimes in: "Export markets have been [at least] as profitable as domestic markets" *(see box, p. 88)*.

Welch and Daniell, with other corporate leaders such as Dexter F. Baker, chairman and chief executive of Air Products & Chemicals Inc. and current chairman of the National Association of Manufacturers, make another telling point: Concentrating on the home market today spells disaster, because companies that try doing so end up losing out to imports even at home. "It is the companies that export that are doing best here at home," says Baker.

Low-cost imports squeeze margins here in the U.S. "That has been a wonderful prod to U.S. companies to improve their productivity," says Gary C. Hufbauer of Georgetown University.

The likelihood now is that the U.S.



In 1991 the merchandise trade deficit, including oil, is offset by a surplus on services and net investment income, giving an overall trade deficit of $7 billion.

will achieve a small trade surplus as soon as sometime later this year. After that? It is more than likely that for a while, the U.S. will slide back into a small overall deficit.

The gloom-mongers will have a field day with this. But it is simply the outcome of what economists call asynchronous growth—trading partners, that is, grow at different rates at different times. Because the U.S. went into recession earlier than other industrial countries, imports here slowed while exports continued on a fairly strong path. Now things have reversed. The U.S. seems headed for modest growth, while Europe and Japan are headed for the economic tank. So, temporarily, U.S. imports will likely increase, and U.S. exports will be squeezed by slowdowns overseas. But when Europe and Japan recover, so will the U.S. trade position head back into surplus. The long-term trend is right and good.

None of this is, of course, foreordained. To be competitive internationally, it is not enough just for the U.S. to improve domestic productivity and efficiency—as it has done. The dollar must also be kept at a reasonable level vis-à-vis other currencies; a too-expensive dollar would price U.S. goods out of foreign markets.

If the U.S. goes back to policies that encourage a strong dollar, as happened in the early 1980s, then all bets are off. Says GE's Jack Welch: "Each 10% increase in the relative value of the dollar requires a 10% increase in productivity to offset it."

Fortunately, the indications on the dollar look positive for trade. The key reason the dollar rose so much in the early 1980s was Congress' pushing up the budget deficit. The two accounts—federal budget and foreign trade—are closely interlinked. The budget deficit left the U.S. with insufficient national savings to pay for the capital investment boom that began in 1982. The gap had to be filled by borrowing from abroad; to achieve that required high real interest rates, which pumped up the value of the dollar.

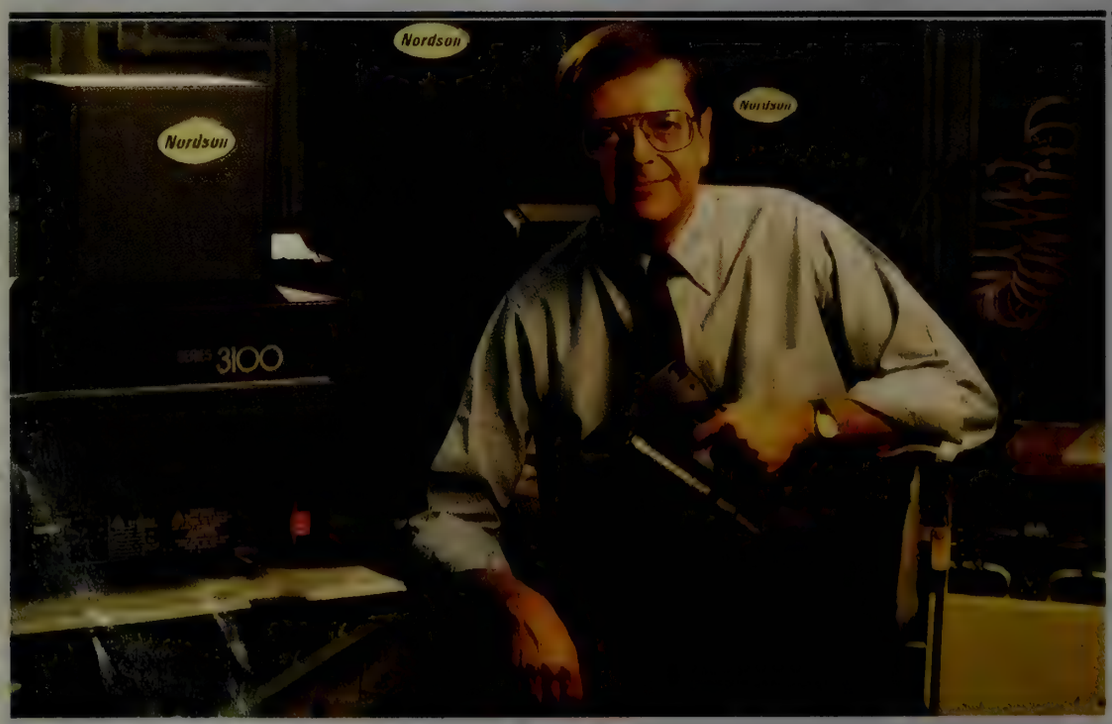
But hold it. Isn't the U.S. budget

Quick reaction

AS THE U.S. trade deficit hit new records in the mid-Eighties, sales at Nordson Corp. flattened in 1985 for the first time in the company's 31-year history. "We had lost our eyes and ears in international markets," recalls Nordson's president and chief executive, William Madar. "We weren't listening as closely to our customers abroad."

Based in Westlake, Ohio, Nordson makes specialized machines that apply adhesives, sealants and coatings used in making things like cars and household appliances. Manufacturing robots don't move at a constant speed—they slow down when making turns—and Nordson's computer-controlled system, called Pro-Flo, adjusts the flow of materials to the robot's speed so they are applied consistently.

Madar had long taken foreign markets seriously; by 1985 half of Nordson's sales were made overseas. So when the business leveled, he reacted quickly. He created three new international divisions and gave them more power within the organization—allowing them, for example, greater freedom to tailor the company's machines to suit local market needs. The dollar, which began to fall late in 1985, also helped.



Bruce Zake

William Madar, Nordson Corp. president

Fast-growing exports now account for two-thirds of sales.

The moves soon put Nordson back on track. While U.S. sales have increased at an average annual rate of 11% since 1987, exports have grown faster and accounted for two-thirds of Nordson's total sales of $388 million in fiscal 1991 (ended Nov. 3). Nordson's 29% average return on equity over the last five years is more than double that of the entire capital goods industry.

Madar, whose customers include Japanese automakers, has little patience with politicians who say the U.S. must get tough with our trading partners. "If you come up with new ways to help people be more competitive," he says, "you don't find many barriers in the way."

–GRAHAM BUTTON

deficit now at record levels? Yes, it is, but we are no longer as dependent on foreign money to finance it as we were in the decade just past. Beginning in 1982, the budget deficit began to increase at the very time when Americans started to save less. Thus, to finance the deficit we had to borrow heavily abroad, and this required high interest rates to attract foreign money. It also strengthened the dollar, because in order to invest here foreigners had to buy dollars.

But we no longer require all this foreign money. A decade later, even though the budget deficit is rising sharply again, the same pattern will not be repeated. Personal savings are higher today, and—far more important—so are corporate savings in the form of retained earnings and depreciation. As a result, the Fed is no longer forced to keep interest rates cripplingly high, nor is there the same upward pressure on the dollar.

Consider these numbers: In 1987 the U.S. imported $150 billion in foreign capital. In 1991, including allies' contributions toward the cost of Desert Storm, the U.S. barely borrowed a cent from abroad. This year the requirement will be no more than $40 billion or so.

Again the caveat: These favorable trends could be reversed if a demagogic Congress goes on a spending spree or on a taxing spree that penalizes savings.

According to the Congressional Budget Office, always the gloomiest forecaster on the subject, the budget deficit by 1996 will be back down to around 2.4% of the total economy, versus nearly 6% by the end of this fiscal year. By mid-decade the worst costs of the S&L bailout should be over and defense spending will have started to moderate.

The best news about the U.S.' strong export performance is that the improvement is broadly based across most world markets. The fastest-growing markets for U.S. exports have been Europe, the newly industrializing countries in Asia and some longstanding customers who were out of the market for most of the 1980s but who are now coming back with a vengeance: the Latin Americans. "Exports to Latin America grew at over 15% in 1991," says Adrian T.

The pull-through effect

Emerson Electric's Stephen Cortinovis **"I don't want our people passing through every six months. I want daily contact with the customer."**

ANYONE who worries that foreign investment by U.S. manufacturers destroys U.S. jobs should look at St. Louis' $7.4 billion (revenues) Emerson Electric Co. International sales accounted for 40% of Emerson's revenues last year. Most of that business was done between Emerson's foreign customers and the company's 110 overseas manufacturing sites. But recently overseas sales of goods made in Emerson's U.S. factories have emerged as the fastest-growing segment of the company's business. Direct exports of Emerson's electric motors, heating systems components and pressure measuring instruments are now running at $500 million a year.

The direct exports are the result of what Stephen Cortinovis, Emerson's vice president of international development, calls "a pull-through effect." By this he means that Emerson's foreign manufacturing has made overseas customers more aware of the company and the company more aware of foreign markets.

"We're experiencing an export boom today because we laid the seeds 15 years ago," he says. "You can't export without a local presence."

Noting that Emerson invested heavily to modernize its U.S. plants, Cortinovis says the company's U.S. operations employed 19,000 workers ten years ago. Today the figure is 44,000.

–CHRISTOPHER PALMERI

Dennis DaVito/Gamma-Liaison

Paper's tigers

BUT FOR EXPORTS, U.S. paper companies would have been in much deeper soup during the last couple of years. U.S. demand for paper is down, but exports are surging, allowing producers to continue running their plants at 91% of capacity. In 1991 American exports of printing and writing paper were up 40% over 1990, which was up 39% over 1989. Exports of kraft linerboard, the inner and outer layers of corrugated cardboard boxes, hit a record 3.4 million tons in 1991. Linerboard exports by Chicago-based Stone Container, the world's largest boxmaker, are now almost 22% of total output.

What accounts for this strength? Two things: the cheaper dollar and heavy investment. The industry, which has never asked for trade protection, reckons it has the highest ratio of capital spending to sales—around 10%—of all U.S. manufacturing industries. Since 1980, U.S. papermakers have spent $100 billion modernizing and building new plants.

Worker productivity has increased by 21% since 1985, but the industry payroll, at 242,000 last year, is down less than 2% from 1985, when the dollar began to fall. "The weaker the dollar, the better our [capital spending] strategy looks," says A.D. (Pete) Correll, president and chief operating officer of Georgia-Pacific Corp.

Exports beget exports. As they sell more abroad, companies like Georgia-Pacific and Stone are finding that it pays to open yet more sales offices overseas, particularly in Asia.

"More and more companies," says Correll, "are developing an export strategy." –GARY SLUTSKER

Georgia-Pacific's Correll (above)
Linerboard
Produce in the U.S., sell worldwide.

Dillon, vice president, planning, Eaton Corp. "This market will become more important as their economies continue to improve and when we get a free-trade deal with Mexico."

The export boom, no flash in the pan, also spreads across a broad sweep of the economy.

The U.S. is, for instance, particularly strong in services, dominating in areas like software and insurance. On international air routes, weak Pan American and TWA have been replaced with three strong carriers, United, Delta and American; today 25% of total U.S. airline revenues come from international routes. Up to 1988, the U.S. mostly had a $2 billion to $3 billion deficit on its travel and tourism account. In 1991 there was a $9.4 billion surplus.

There is great strength in high-tech exports, in computers, semiconductors (where 47% of U.S. output is now exported), in scientific instruments, airliners, pharmaceuticals and telecommunications equipment.

"Revolution" is an overworked word, but there's no better way to characterize what has happened in the capital goods sector. U.S. capital goods makers now export nearly half their total output. Even basic industries, like chemicals, paper and pulp, and relatively mundane equipment, such as electric motors *(see box, p. 87)*, share in the boom.

What's striking, if common sense, is that companies that are competitive and are successfully exporting rarely complain much about foreign governments' blocking their efforts. They have put in the groundwork, which can sometimes take years to bear fruit (especially in Japan).

So how far can this boom go? The U.S. currently exports around 7% of gross domestic product. Japan exports 9.7%, and the European Community around 9% outside the community. Suppose that the U.S. can add the equivalent of another 3% of GDP to its exports, to match the export share of its major industrial rivals. Today that would equal $170 billion in new trade, which would sustain at least 2.75 million jobs.

These extra exports would, incidentally, just about replace the output and jobs likely to be trimmed over the coming five or six years as a result of defense spending cutbacks. So we are not talking of a jobs bonanza, the more so since many successful exporters are still trimming unneeded jobs to cut costs and boost productivity further. Nevertheless, such an increase in exports would greatly ease the inevitable pain of massive cuts in the defense budget.

It would be pleasant to conclude this article on a wholly optimistic note, but it would be unrealistic to overlook the very real dangers of politics intervening. Senator Donald W. Riegle Jr. (D–Mich.) has, for instance, introduced a bill that would reclassify Japanese minivans as trucks (thereby adding perhaps $5,000 to their cost). Riegle's bill will probably go nowhere, but one never knows. History shows that free trade works, generating jobs and profit. And trade has played a significant part in helping squash inflation.

Trade, more now than at any time since the end of World War II, holds center stage when it comes to the nation's future economic well-being. Yes, there are many, many problems. We can all list them: inadequate education, crumbling infrastructure, crime, overspending politicians and the rest. But sustaining the trade boom will at least provide the means to deal with some of these problems. Should the boom wither, the prospects would be as dark again as they were in 1979.

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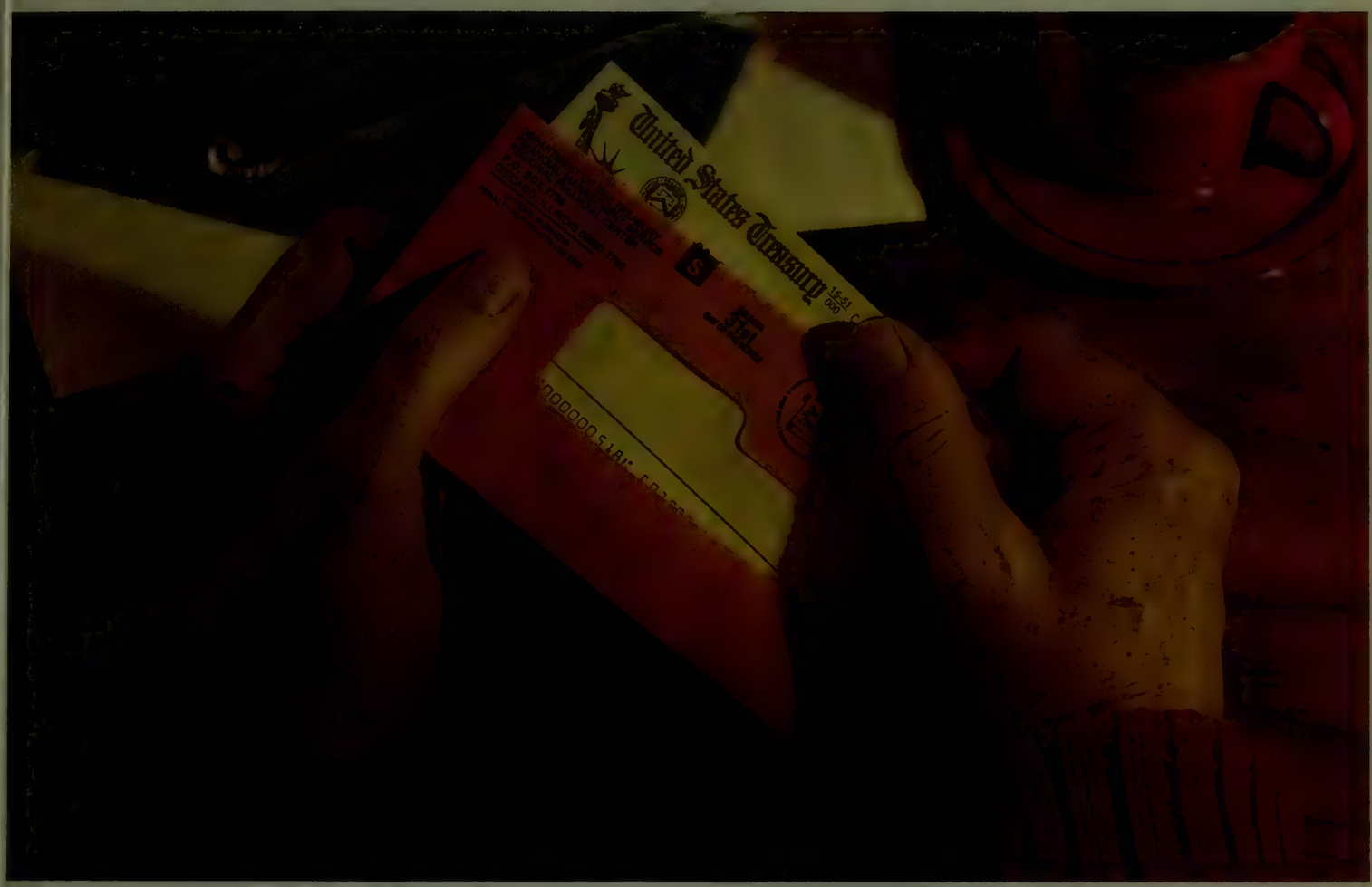

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Fred Ouweleen sold electric massagers and high-tech pogo sticks before finding his true vocation: miniature airplanes.

Making a hobby pay

By Jean Sherman Chatzky

FREDERIC OUWELEEN JR. learned to fly a Piper Cub before he learned to drive. As a student at Washington University in St. Louis, he earned spare cash flying a photographer friend over new commercial and residential development sites, then hawking photos to the developers.

Ouweleen, now 39, still earns his living from small planes—very small ones. His City of Commerce, Calif.-based company, Pacific Miniatures, sells 400 scale-model aircraft a week to customers like Boeing, McDonnell Douglas and Federal Express, who use them for promotion. Business is booming.

Since buying the firm for $250,000 in 1986, Ouweleen has boosted revenues threefold, to $2 million. Last year the privately held Pacific Miniatures' pretax profits topped 10%.

How do you get to run a fun business like this and make a good living out of it? In Ouweleen's case it wasn't easy. Like many in his generation, Ouweleen was less ambitious than he was adventurous. After finishing up a business degree in 1975—it took him six years to get through college—he took a job in Brazil managing international shipments for a moving company. "I wanted to get to know another culture," he says. "And there was a sort of frontier spirit in Brazil."

Six years later, after dabbling briefly in real estate and market research, he became frustrated with the turf battles within Brazilian organizations and came back to the U.S. "If management felt you were showing promise or initiative," he says, still a bit incredulous, "they would fire you."

Chad Slattery

Pacific Miniatures President Fred Ouweleen
Cranking out more 747s than Boeing.

Looking around for something to do, Ouweleen noticed how well outfits like the Sharper Image and Hammacher Schlemmer were doing flogging expensive toys. Why not get into the business of supplying them with widgets and gadgets? His father, Frederic Sr., was a longtime executive at Emerson Electric and had contacts in Japan. Through his father, Ouweleen got in touch with Japanese manufacturers and began importing massage paraphernalia, which he in turn peddled to the gadget retailers. Expensive shower heads and a high-tech pogo stick soon followed.

Ever on the lookout for expensive toys, Ouweleen decided to test his own taste. An avid builder of model airplanes as a kid, he figured that highly detailed scale-model versions of early commercial airliners would attract a well-heeled group of airplane buffs. He contacted Lockheed about creating scale models of its piston-powered Constellation. Lockheed, in turn, sent Ouweleen to Pacific Miniatures.

Founded by a former Douglas Aircraft employee, Pacific Miniatures had been making models since 1946. Pacific wasn't doing well. The labor-intensive fiberglass molding technique had not changed a whit. At full capacity, the plant turned out just 28 model planes a day. Hardly enough to satisfy gadget hounds, not to mention nearby McDonnell Douglas, which was buying 60% of the output. Moreover, an ex-employee had set up shop down the road, sparking a bidding war for the McDonnell Douglas account. Having cut its prices sharply, Pacific Miniatures was losing about $15,000 a month, and the owner wanted out.

Entrepreneur that he is,

IS AMERICA'S WORK FORCE BANKRUPT?

Many business leaders believe the answer to that question is a frightening "Yes." They perceive an absence of commitment, a lack of maturity, and the inability to absorb training to be an alarming trend in much of today's youth.

But perception isn't necessarily reality. Consider the people who have served in the Army.

The Army enlists quality people.

The Army believes America's youth belong in school. Our recruiters are strong advocates for good study habits and high school completion. We believe it pays off.

Over 98 percent of new recruits are high school graduates. Over two thirds score above average on the Armed Forces Qualification Test, a standardized aptitude test.

These smart new soldiers then become students in the nation's largest technical training organization. With 18 major technical training complexes, the Army trains young adults in over 300 specialities, many that involve high-tech equipment and state-of-the-art technology. It is a system that graduates over 100,000 men and women each year.

Transferrable skills.

Researchers at Ohio State University found that 50 percent of the people recently separated from the Army had transferred the occupational skills acquired in the military to their civilian employment. This was slightly better than the rate of skill transfer by graduates of business schools and vocational/technical colleges. But beyond occupational skills, soldiers acquire other lifelong qualities.

As a matter of fact, a survey of hundreds of employers, many from Fortune 500 companies, clearly shows that they value the attributes soldiers develop in the Army and will hire young people who are reliable, disciplined and have responsible attitudes toward work.

How the Army Career and Alumni Program helps America.

This year about 150,000 men and women will leave the Army. As they return to civilian life, they bring with them self-discipline, motivation, and technical skills America's work force needs. To help them get a head start on their civilian careers, the Army established the Army Career and Alumni Program (ACAP).

At ACAP Centers around the world, the Army provides training in job search skills for soldiers and their families. Besides facilitating their entry into the civilian world, the ACAP program prepares soldiers to make immediate contributions in their new civilian jobs.

How ACAP can help your business.

While ACAP serves the needs of the soldier, it's also a resource for employers across America. Interested employers may enter their firms into the Army Employer Network Data Base and find out more about ACAP by calling 1-800-445-2049.

It makes sense to support Army recruiting and Army Alumni. The Army will continue to recruit and train high-quality young men and women because they are the key to maintaining America's defense. And the Army will continue to return to the civilian sector capable, mature, highly-motivated young people, ready to Be All They Can Be as part of America's work force.

Ouweleen wasn't discouraged by Pacific's problems but rather excited by its prospects. The company had an established name and a customer list that included top airlines and airplane manufacturers. All it needed, he thought, was better management and better promotion. Using a loan from his father, Ouweleen acquired Pacific Miniatures in September 1986.

His first move was to up prices 40%. It immediately backfired. McDonnell Douglas yanked its account, and more than half his business disappeared overnight. Oops! Back to the drawing board. Realizing he had to get his costs down in a hurry, as well as attract new customers, he borrowed another $250,000 from his dad (who has since swapped the loan for 50% of the company's equity) to buy reaction injection molding equipment—the same technology used to make car bumpers and dashboards out of polyurethane. The new equipment not only quadrupled production but also allowed him to make models with much finer detailing.

Then he began making sales calls on airlines, aircraft manufacturers and leasing companies. "I don't think anyone had called on a customer in 30 years," he laughs. Pacific previously had relied mostly on word of mouth.

This year the firm will make about 20,000 models bearing the logos of Federal Express and Continental Airlines, among others. Prices: from $60 for a 10-inch DC-9 to $6,000 for an 8-foot 747. Ouweleen, who stays in close contact with customers, builds planes to order rather than maintaining inventories. The company has a four-month backlog.

Pacific Miniatures is now the largest company in what is at best a $7 million market worldwide. But Ouweleen still thinks there's room for growth. Airplane leasing companies, which began buying from him in 1988, now make up a third of his business. To cultivate a collectors' market, he plans to target pilots and other high-paid airline executives.

With just one model in his spare, industrial-looking office, Ouweleen clearly has no sentimental attachment to his products. "I love aviation," he says with a smile. "But here I'm much more the business person. I like to see the planes go out the door."

Jerry Rubinstein and two cable giants are betting that music addicts will shell out an extra $10 a month to get digital music over their cable systems.

The HBO of radio?

By Peter Newcomb

A BUSINESS GRADUATE of the University of California at Los Angeles, Jerold Rubinstein is an old hand in the music trade. In the late 1960s he was business manager for such stars as Joni Mitchell and Neil Young, as well as a young talent manager—David Geffen.

In 1975 he was tapped to run the record division for the American Broadcasting Co. Three years later he and a partner acquired the United Artists record label, selling it in 1979 to EMI. Rubinstein's take on the deal: about $5 million.

Now Rubinstein, 53, wants to be the HBO of radio. Since September his six-year-old Los Angeles-based company, International Cablecasting Technologies, has been selling a premium cable service, called Digital Music Express, to subscribers at 146 cable systems.

DMX, as it's known, offers cable subscribers 30 channels of finely targeted music programs. Classical music lovers have three channels to choose from: chamber music, symphonies and opera. Rock music is segmented into eight categories; country and Latin music into two each. The music is broadcast digitally, for high clarity, and there's no annoying banter of disc jockeys or commercial breaks. Price: about $10 a month.

Will it pay off? In one sense, this Vancouver Stock Exchange veteran already has. Never mind that International Cablecasting lost $6.3 million last year on negligible revenues. Its 28 million shares now trade over-the-

Ann Stratton/AMA

DMX cable radio studios near Atlanta

No annoying disc jockeys, no commercial breaks.

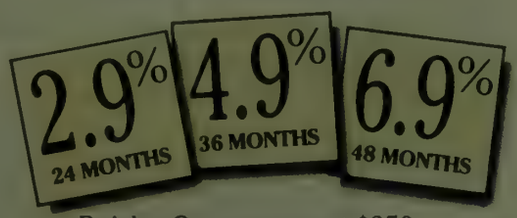
What's the best incentive to buy American?

Buick quality.

Today, the results of Buick's commitment to world-class quality are being reported by the automotive press, and by Buick owners as well.

For instance, *Consumers Digest* and *Motor Trend* have named Buick LeSabre a "Best Buy." Buick was the only domestic automaker to show a 1991 sales increase. And "MotorWeek" named the 1991 Park Avenue Ultra America's best luxury car.

And right now, there's added incentive to buy Buick quality: special GMAC annual-percentage-rate financing* on all Buicks. Or, you can get $250–$2,000 cash back on selected Buicks, depending on the model and options you choose. See your Buick dealer today.



*Examples: 24 monthly payments of $42.93 per 1,000 financed, 36 monthly payments of $29.92 per $1,000 and 48 monthly payments of $23.89 per $1,000. Down payment example is 20% down. (Your down payment may be more or less.) Dealer financial participation may affect consumer cost. You must take retail delivery from dealer stock. See your dealer for qualification details.

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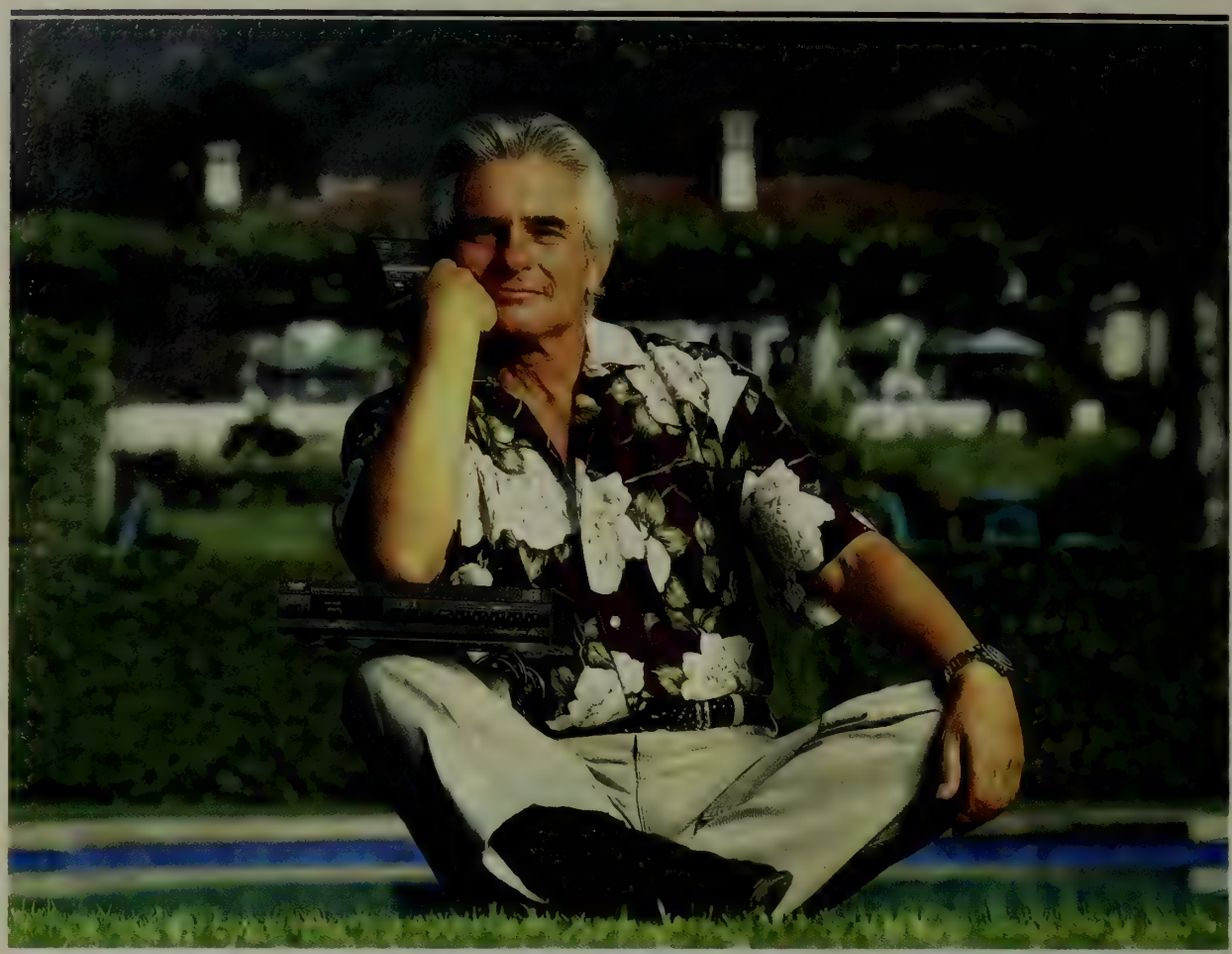

Alan Levenson

International Cablecasting Technologies founder Jerry Rubinstein **The music may be a better buy than the stock.**

counter at $8 apiece, giving the outfit a market cap of $224 million.

Rubinstein, a laid-back Californian with a shock of white hair, blushes at the mention of the Vancouver Exchange. He says a Canadian friend recommended he raise startup money there by doing a reverse acquisition with a publicly held shell company. The deal brought the company $432,000 for 43% of its equity. At that time, in May 1986, the shares traded for about 25 Canadian cents. When pressed, Rubinstein shrugs. "Vancouver is a venture capital market," he says. "Deals fail."

Too bad that International Cablecasting has tarred itself with the Vancouver brush, because the company does have a number of things going for it. For starters, Jerry Rubinstein has sunk $2 million of his own money into the venture for a 10% interest. Denver-based Tele-Communications, Inc., the giant cable operator, has also put nearly $5 million into the company for a 10% stake. Cable operator and programmer Viacom (FORBES, *Mar. 16*) and cable equipment maker Scientific-Atlanta are also investors. Altogether, International Cablecasting has sunk $25 million into hardware, software and satellite hookups.

How does Rubinstein plan to get cable operators to add his service to their already overcrowded cable systems? It works like this: DMX squeezes its audio signals—which take up just a tenth of the bandwidth of a video signal—between the existing cable channels. Thus, the reggae and classic rock stations can be broadcast between channels 2 and 3, country music and opera between channels 4 and 5, and so on. The signals are decompressed by a DMX cable box that plugs into a subscriber's stereo. Boasts Rubinstein: "We haven't found a system where we can't fit." In other words, cable operators get additional revenue—about 60% of the subscription fee—without giving up any space on their systems.

The reception so far has been good. With very little marketing, almost 7,000 of the 200,000 homes that can pick up DMX on TCI systems have subscribed. The sign-up rate for commercial customers—bars, restaurants and department stores, which use it like Muzak—has been much stronger. No wonder. For about $70 a month—roughly the same as Muzak—commercial customers get digital sound and six times as many programming choices.

Whether all this is worth a market cap of $224 million is a big question. Keith Mullins, an analyst at Smith Barney, judges: "Either this is going to be a moon shot or it's going to be a bust. And you don't have enough evidence right now to say either." Kenneth Goldman at Bear, Stearns is a little more bullish on its chances. He thinks the company will break even with about 350,000 subscribers. "After you reach break-even," he says, "every million subscribers generate $30 million of revenues." And since the incremental cost per subscriber would be low—once the service is widely available—the company could generate significant profits with relatively low penetration.

Say this for Rubinstein: He's a heck of a promoter. Aware that he is talking to a business reporter, he slips easily into Wall Street jargon: "We're not playing music," he says, reggae music pulsing in the background. "We're playing data."

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Sex sells products. But death? Unlikely as it sounds, the Grim Reaper is becoming a pitchman.

Dr. Pangloss, meet Ingmar Bergman

THE COMMERCIAL for Comedy Central, a new cable channel, starts off conventionally enough: "To keep my thighs silky smooth I use a pollen extract from Romanian Royal bees," purrs actress Sean Young. "To keep my navel taut and resilient I use African antelope musk oil." Then the shocker: "For up here" (pointing to her head), "I use a combination of sublimation and denial. To keep from remembering that all this is absolutely meaningless." Cut to the new ad campaign's slogan: "We're all going to die. Watch Comedy Central."

Reminding people they are going to die seems an inappropriate way to get them in a spending or viewing mood, but there may be a trend here. There's the spot that ran last year for Pepe Jeans in the U.K. The commercial showed a group of teenagers lying in a grassy park, giggling—nothing more. Until the last line: "Because one day you'll die."

What's going on? Demographics. People born during the baby boom aren't getting younger, and they are coming to terms with the truth that no advertised product is potent enough to reverse the march of time. Dr. Pangloss, meet Ingmar Bergman.

"This is telling you life is a lot sillier than it looks. Remember—fear, dismemberment and death are lurking behind everything," says Danny Abelson, who wrote the Comedy Central commercial at Frankfurt Gips Balkind, an ad and design agency.

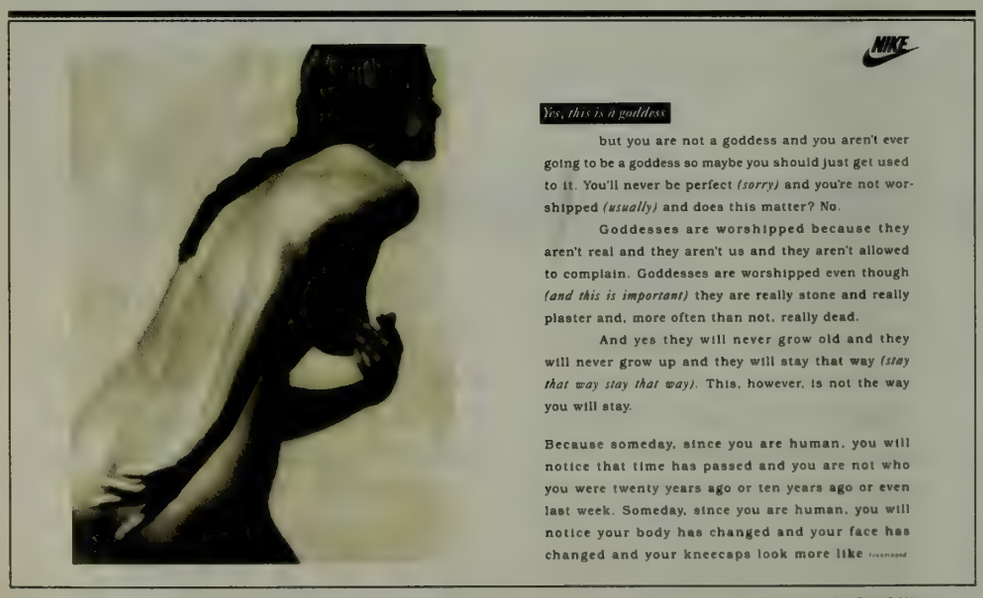
Market researchers have detected a sense of gloom in the population. Is it just the recession? Maybe, but it may go deeper. Before a nervous Cunard ran an ad for its *Queen Elizabeth 2* last year with the headline "Life is short," it asked Decision Research to plumb the mood of the country. Not good at all, says Decision Research Vice President Maureen Berman: "There's a sense of disquietude pervading people's lives, like you could get hit by a car at any moment." Which is one reason that the ad with its ageless *carpe diem* injunction—literally, "seize the day"—scored well.

A new ad for Nike athletic shoes shows a near-perfect nude with the headline "Yes, this is a goddess." Then comes the cold shower. "But you are not a goddess and you aren't ever going to be a goddess so maybe you should just get used to it. . . . Someday, since you are human, you will notice your body has changed and your face has changed and your kneecaps look more like Winston Churchill than ever before." The ad goes on to suggest that it might just be worth strapping on a pair of running shoes anyway, and the hell with looking like Kim Basinger.

"This is the first time we addressed the issue that if you don't come face to face with your mortality, it's going to come face to face with you," says Janet Champ, the ad's copywriter at Nike's ad agency, Wieden & Kennedy. "I'm 32, and my kneecaps don't look like they used to."

Nike reports receiving upwards of 45,000 calls praising the new down-to-earth tone—the most responses to any of its campaigns yet. "Please keep doing this," one caller implored.

Will death replace sex as a selling tool? Not likely. But Frankfurt Gips Balkind's Abelson can imagine more roles for the Grim Reaper: "Take detergent—you're going to die, why not look your best in the meanwhile?" —J.L.



New ads for Nike and Comedy Central **"If you don't come face to face with your mortality, it's going to come face to face with you."**

20

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Atlanta Hilton and Towers
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How to spend $2,000 on a Club Med vacation and save for your retirement, too.

Guilt-free spending

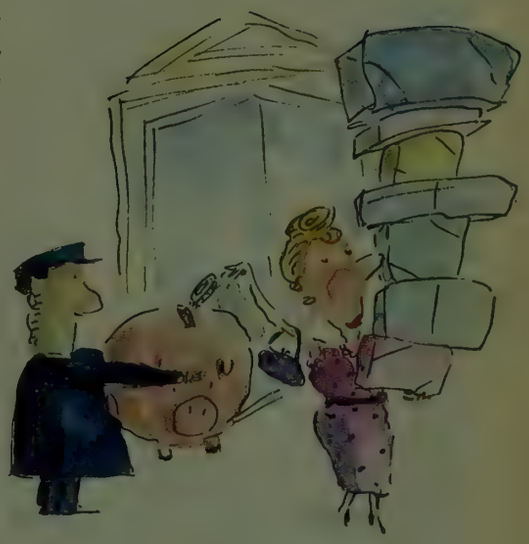
WOULDN'T IT BE GREAT if you could spend and save at the same time? A new Reston, Va.-based organization called Start has come up with an intriguing sales come-on that will allow you to feel you are doing just that.

The idea? Later this month Start, which stands for "Save today and retire tomorrow," will announce a program that will funnel a percentage of the retail price of a variety of products and services into a retirement account for the buyer. The more buyers spend, the more they end up socking away.

Details are sketchy, since Start Chief Executive C. Lloyd Mahaffey, a former marketing executive with Apple Computer, isn't talking. But here is how we think that the deal will work: People will sign up for $25 memberships with Start, which has contractual agreements with a variety of suppliers. So far, the list of suppliers includes MCI, Club Med, Hertz and General Electric Capital. And Start has been negotiating with Mobil Corp. A supplier's direct competitors can't join.

When a Start member purchases anything from a Start supplier, Start puts in the neighborhood of 6% of the purchase price into a Metropolitan Life Insurance annuity in the member's name. So when a Start member plunks down $2,000 for, say, a Club Med vacation, $120 is automatically funneled into the member's Start account at Met Life.

As with most annuities, the income and appreciation in the Met Life account will remain untaxed until the member reaches 59½. Club Med pays Start 8% of the purchase price, or $160, to cover the cost of the annuity plus Start's administrative costs and profits.


Laura Cornell

In most cases, the 8% cost will probably come out of a company's promotional or advertising budget. Start's suppliers consider the annuity potentially a much more powerful lure than a straight discount. Besides, a Start account could keep customers coming back.

Is it a good deal for consumers? In dollars and sense, maybe not if a lot of Start members pass up even deeper available discounts in order to build their annuities. Moreover, a hefty 25% of the rebate stays with Start. But for people who have trouble saving, the appeal is obvious.

"The idea of 'forced' saving is very appealing to a lot of people who feel they can't do it on their own," says Mitchell Ratliff, a marketing vice president at Chase Manhattan Bank. "If they can get that and not disrupt their basic patterns of consumption, it sounds like the best of all possible worlds."

Word has it that big Wall Street money is behind this novel idea. Stay tuned. –J.L.

Computers have changed the world, but Judith and Harold Flynn were among the first to realize how computers would transform mapmaking.

After Galileo

By Tatiana Pouschine

HAROLD FLYNN, now 56, and his wife, Judith, 47, left the world of regular paychecks at Christmastime in 1976. "We had absolutely no doubt we would succeed," recalls Judith, speaking of the incorporation of their business that year.

Today St. Petersburg, Fla.-based Geonex is one of the leading mapping companies in the U.S., with revenues last year of $68 million, profits of nearly $2 million and a market capitalization of $32 million. But at the start the couple's chief assets were their confidence and combined skills.

Harold had been working as a marketer of mapping services for Litton Industries and had been following changes in mapping, surveying and charting. He became familiar with electronics, infrared photographs, magnetics—technologies that would have confounded Galileo. Judith, who has an M.B.A. from the University of South Florida, was the assistant controller of Alcoa Marine Corp.

The couple had a simple enough idea. Harold Flynn was familiar with computerized military mapping and felt it had potential for commercial applications. "At that time there were almost no mapping companies that were doing anything computerized. It was all in the old manual tradition," he says. Geonex would marry mapping and computers.

Finance? A shoestring. The couple took their savings, a few thousand dollars, and approached private investor James Roser for additional capital. Total amount raised: $65,000.

But it was defense, not commercial applications, that got the company started. Geonex's big break came when it won a Defense Department contract to update aeronautical maps around the world. In the first few years of the company's existence, 90% of its business came from the Defense Department; today less than 5% does.

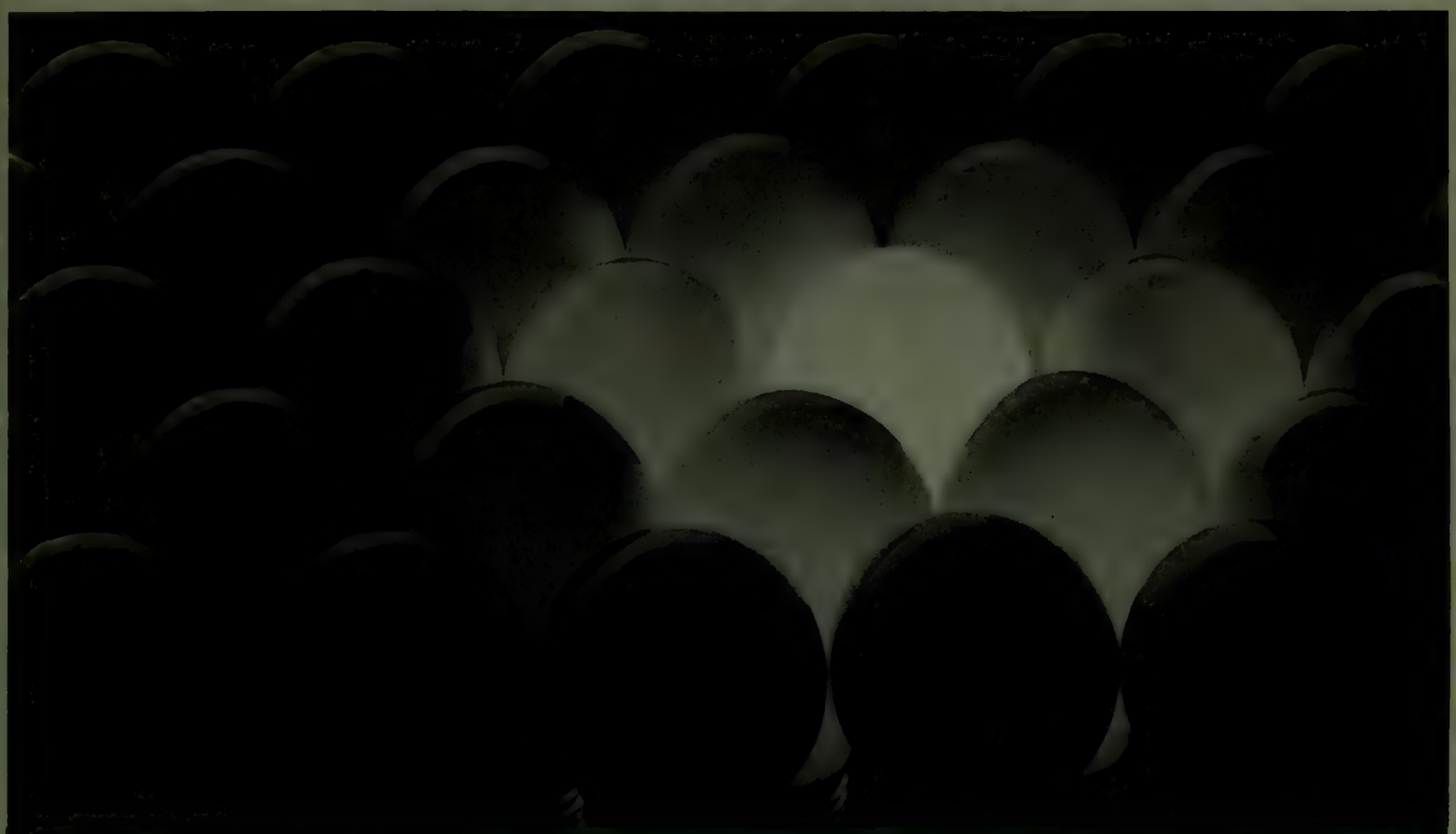
As computer storage and processing capacity grew cheaper, telephone and utility companies began to convert coffee-stained maps into computerized records. Flynn was well positioned to win business. Last year 38% of Geonex's revenues came from telephone and utility companies.

But Flynn isn't just a computer jock. He uses all the technologies available for measuring the earth's surface and subsurface. Take infrared photography, a technology that came out of the Vietnam War. To conceal a truck depot, the enemy would use a tarp covered in vegetation. To find

Maurice Rapaport

Harold and Judith Flynn, founders of Geonex **They didn't need big money to build a high-tech firm.**

WHAT'S A NEW IDEA WORTH?



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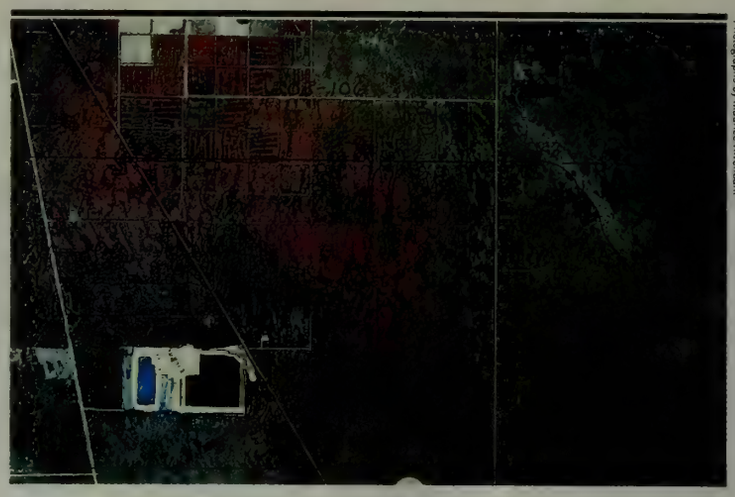
The Energy To Change BP

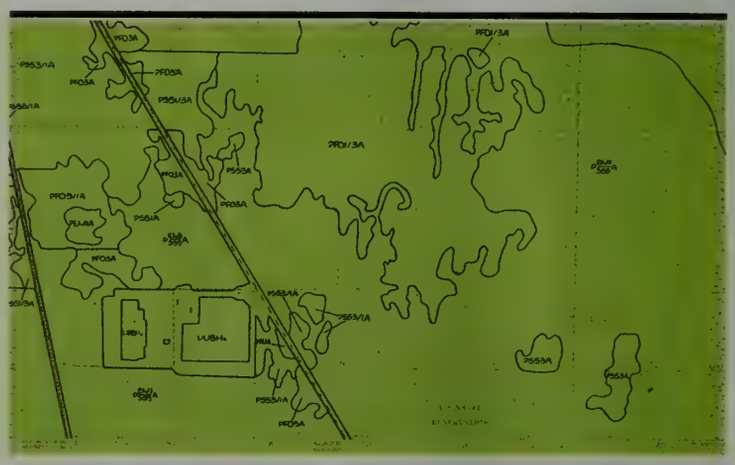
the camouflaged spot, U.S. pilots took aerial photographs using infrared film. The camouflaged trucks became visible because the tarp "bushes" radiate a different temperature than actual bushes do, and different temperatures translate into different shades in infrared photographs.

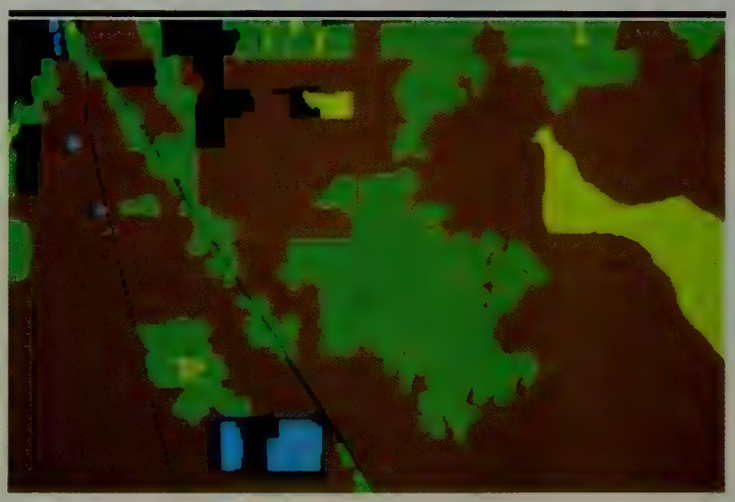
Flynn soon found commercial applications for the technology. In 1980 the U.S. Fish & Wildlife Service awarded Geonex a multimillion-dollar contract to classify all the wetlands of the U.S.—every swamp, bog and marsh. The project is based on interpreting infrared photographs taken from very high altitudes. Geonex has mapped half the wetlands in the country so far; last year it derived 7% of its revenues from the project.

But things didn't always go smoothly in Geonex's 15-year journey from idea to successful small company. In 1987 revenues suddenly dropped 13%, from $19.1 million to $16.7 million, almost wiping out the year's operating earnings. In the first quarter of that year Congress and the Administration had a budgetary clash, resulting in the freezing of government projects. Then a large telephone company temporarily halted its mapping project. But bills still had to be paid. "At that time we had only two big clients. But they both went away at the same time and we had zero clients," says Flynn.



Photographs by Maurice Rivenbark





Mapping the wetlands

From an infrared photo, Geonex interprets shades and creates a computerized map, this one of wetlands near Miami.

Then the Flynns landed a $17 million contract to help map agricultural areas around the Nile's delta and river valley. The Egyptian government, worried about feeding the country's exploding population, seeks to expand the irrigated areas. It wants a precise map of the soils that would respond best. For this project, Flynn is using an array of technologies.

Now Flynn is looking at magnetics, used in oil and gas exploration. Satellites have renewed interest in this old technology, developed during World War II to chase submarines. As an airplane flies, a device called a magnetometer measures the earth's magnetic field, creating a geological picture. Until recently, these pictures weren't particularly useful: Though they indicated potential oilfields or mineral sources, no one knew precisely where the minerals were. Satellites, creating navigational grids, allow mapmakers to pinpoint these areas within a fraction of an inch.

Using magnetic sensors to map potential reserves costs $25 to $150 per line mile, versus the $1,000 to $10,000 a seismic study entails. Suddenly, says Flynn, there is interest in exploring even such populated areas as the East Coast for new oil and gas reserves, and the desert in the Southwest for gold. To help Geonex keep up with opportunities, Flynn bought Toronto-based Aerodat Ltd., a mineral exploration firm, last September, paying about $4 million.

Water studies are next. "If you wanted to go to Saudi Arabia now and really do something wonderful, don't find oil, find water," says Flynn. He is also exploring ways to map hazardous waste sites.

At least the Flynns no longer worry about meeting payrolls if a few big customers pull back. In August 1986 the Flynns took Geonex public, selling over 1 million shares at $8 a share—$6.5 million of the proceeds going into the corporate kitty. Last May Geonex sold 1.1 million shares at $13 a share, producing another $10.6 million in equity capital. In the two offerings the Flynns and their principal backer offered some of their own shares, but the couple still owns 27% of Geonex, worth, at a recent 7, over $8 million. That amount could grow significantly over the next few years if John Westergaard of Westergaard Research & Publishing is correct. He expects Geonex to more than double its sales by fiscal 1996 and earnings—51 cents a share in 1991—to grow to $8 million, or $2 per share.

Special Advertising Supplement

THE PLEASURES OF BUSINESS TRAVEL

Making The Most Of Going On The Road

By Peter S. Greenberg

IN THIS SPECIAL REPORT:

- The Real Airport Magicians
- Secrets of the Hotel General Managers
- Layovers You Can Love

ALL ACROSS EUROPE, AS THE NEW DAY ARRIVES, SO DO WE.

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Old City Center, Munich.

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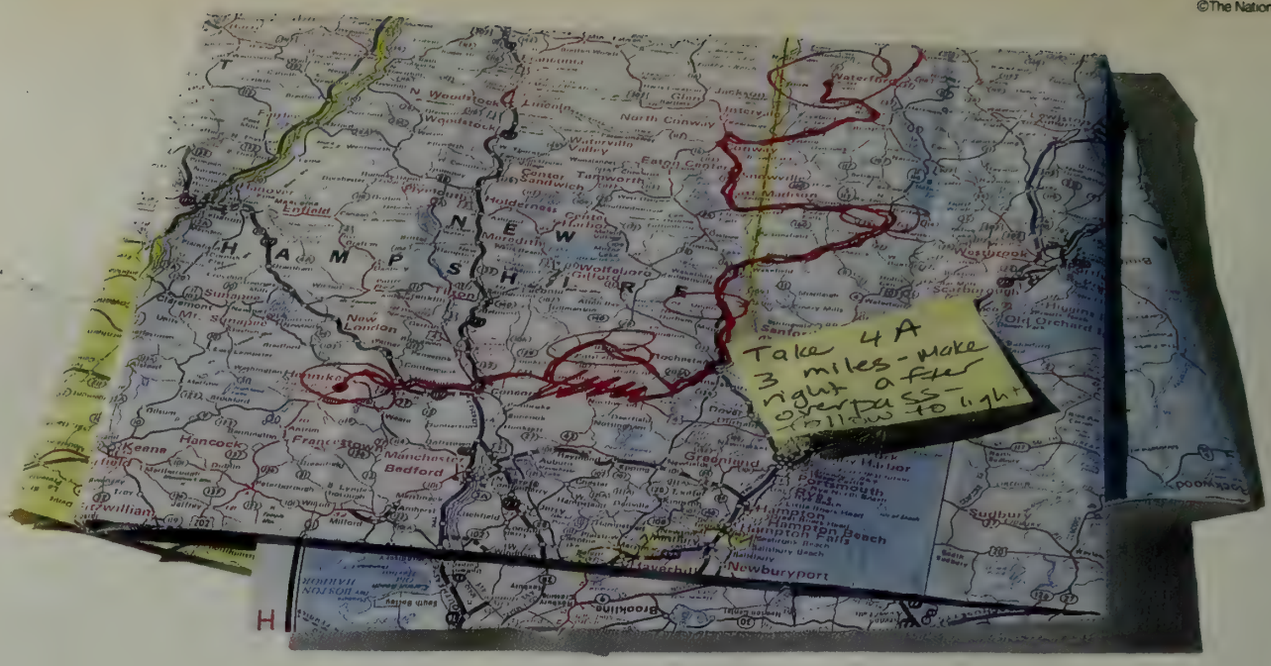

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Those who can find a way to make getting there "half the fun" can be said to have found the secret of business survival. Very frequent business travel can be a killer. But with the right attitude, a few tricks of the trade and the help of some of the travel industry's more innovative companies, business travel can be a pleasure.

The demographics of the travel business have changed radically in the last 10 years. In 1978, at the beginning of the era of deregulation, only 21% of the entire U.S. adult population had ever flown on an airplane. Today, that number has soared to more than 79%.

There is, however, a difference between the occasional traveler and people for whom travel is a way of life. These are the "road warriors" who have learned by experience how to make each journey easier and more pleasant than the last.

Here are one road warrior's tips for frequent travelers, designed to make life on the road more productive...and more fun.

The Real Airport Magicians

You won't see them at the ticket counters, and chances are, you won't spot them at the departure gates.

In these tough economic times, as airlines cut back, these people are the endangered species of the airline business. But they are probably the most important people you'll ever want to know if you're about to take a flight. They are special services representatives, the most knowledgeable folks at an airport.

They know the ticket agents, seat allocations, in-flight catering officials and phone numbers to save the day for countless harried passengers.

And some savvy travelers know them.

Special services representatives are given tremendous discretion, flexibility and authority to achieve impossible feats. They are the airlines' ambassadors of good faith and good will.

They can perform radical computer surgery and rewrite a passenger ticket on the spot; they can authorize hotel rooms and pay for meals and phone calls when flights are delayed or canceled. They deliver important messages. In some cases, they even help surprise passengers on their birthdays, or loan money to harried executives who show up at the airport without any cash.

At one time, virtually every U.S. airline had special services representatives on the payroll. Today, the tradition continues only at a few airlines.

In a some major cities — Los Angeles, New York, Chicago, Atlanta and Dallas — as well as a few smaller markets like Nashville and San Jose, you can continue to find special services reps.

British Airways has them in New York and Los Angeles. And United has started a special services operation in gateway cities where it has international flights.

One legendary rep is Ginny Borowski at American Airlines in Chicago. Each day Borowski arrives at O'Hare Airport shortly after 4 a.m. to prepare for the early morning

onslaught of passengers and flights.

When she arrives, there are usually at least 40 messages waiting for her, alerting her to important arrivals and departures and passengers needing assistance.

Between 6 a.m. and 8:45 a.m., American has more than 50 departures from Chicago. Borowski performs an unbelievable balancing act, zipping among more than 26 gates, providing hand-holding for corporate chief executives, small children or incoming VIPs from West Coast red-eye flights. The 26-year American Airlines veteran has mastered the fine art of matching names and faces, recognizing past passengers before they recognize her.

"I've seen just about everything," says Larry Lindsley, a Dallas-based special services rep for Delta. A 22-year airline veteran, Lindsley makes it a point to be everywhere at once during the heavy "push" times at the airport.

"This is a job of caring," he says. "You have to place a special emphasis on attitude, and how to problem solve, how to make it work."

For Lindsley, the protocol is patience and being a good listener. Not a day goes by without his handling anything from unaccompanied children who have missed flight connections to misplaced bags or more serious problems of passenger illness.

A business traveler recently landed in Dallas without his bags. He was heading to a nearby city for an important corporate conference, but his luggage contained the documents crucial for the business meeting. The misrouted bags arrived two hours later, too late to make a connecting commuter flight. Lindsley retrieved the bags and drove them 90 miles — in time for the meeting.

An unusual act? Not really. In special services, such behavior is commonplace.

Veteran frequent fliers know this. In fact, the road warriors who fly American in and

out of New York's Kennedy Airport know Mary Strain, the undisputed queen of special services. Supported by a staff of five, she is American's magician. Somehow she always seems to know which plane is on time, which has a problem and what the weather report is for San Francisco or San Juan.

At Kennedy, Strain is not really seen or heard, but her impact is felt. She is American's subtle but effective mistress of ceremonies. On one recent day, Strain worked the passengers on ten flights simultaneously, and no one left angry. At any airport, that's an accomplishment. At Kennedy, that's usually an impossibility.

"We operate a lot on understanding the human condition," says Strain, "and in recognizing that putting people on airplanes is not always a good match. Not everyone wants to fly. And not everyone wants to fly coach," she laughs. "But they do want recognition. They do want to know we care, and we do."

"We often rely on gut instincts," says one special services rep. "And we usually don't get a lot of time to solve problems — maybe 15 minutes. If we don't, it becomes a big problem. You quickly learn how to read people and how to act fast."

One common assumption many people make is that special services representatives exist only to handle VIPs. To be sure, if a top CEO or the L.A. Lakers are coming into town, you can bet the special services staffs know. It's also true that if you're a very frequent flier, but not a VIP, and don't know the special services staff, chances are they don't know you.

The airlines are willing to provide extraordinary services to their best customers, but it's up to you to get to know them. The next time you're at a major U.S. airport, ask the counter or gate agent if the airline has a special services representative. If it does, ask to meet him or her, even if you don't have a problem (especially if you don't have a problem). Introduce yourself. Exchange cards. Follow through with a letter.

Now, you'll really know someone at the airline who can help you.

Secrets of the Hotel General Managers

"We have a lovely room for you," says the front desk clerk, as you check into your hotel. Indeed, when the bellman takes you to your room, it does look lovely. He points out the ice bucket, the thermostat; he opens the curtains, shows you the television. Everything looks in place.

And that's the problem. It's not YOUR place, and you sometimes discover that things don't work the way you like them to.

The curtains don't open all the way. The bathroom is lit too dimly. The television remote control is bolted to the nightstand. You can't see the television from the bed. The closet is too small for your suitcases. And the phone is attached to a cord that is only two feet from the wall.

"You have to wonder," says Edwin Theobold, general manager of the 489-room Churchill Hotel in London, "if hotel designers ever stay in hotel rooms. It's like a vast conspiracy to deny you basic common sense, and therefore, basic comforts."

"It's not really a conspiracy against our guests," says Horst Schulze, president and chief operating officer of the Ritz Carlton Hotel Company, "because bad hotel design makes us just as angry."

In many cases, the first problem has to do with room lighting. "Light switches in guest rooms drive me nuts," says Barron Hilton, chairman of the board and president of Hilton Hotels. "Why can't we design them so they make sense? When I travel," he says, "I spend a considerable amount of time trying to figure out where switches are

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located in my hotel room, and what they turn off and on."

Hilton confronted that problem firsthand when he attended the grand opening ceremonies for his new Conrad Hotel in Hong Kong. The Conrad, a gleaming 513-room addition to the Hong Kong skyline, featured rooms with many design conveniences.

The rooms were spacious, the service excellent, and Hilton found himself again walking around in the dark. It seems the hotel designers put a master switch near the front door. Guests entering the room push the switch, and all the room lights go on. One small problem: At night, when guests want to go to bed, there is no master switch by the bed. "So I had to get up and go to the door and turn off the master switch," Hilton reports. "And then stumble back to the bed in the dark, trying not to walk into the furniture or the wall. There will be a memo on this."

There was more than a memo. There's now a master switch at both the entrance to the guest rooms and next to the bed.

Ultimately, good design doesn't come down to room size, but to the way the space in the room is used. "It's the economy of scale," says Carl Mottek, president of Hilton. "The average hotel room is between 750 and 850 square feet. What you put in that room, and where you place it, is the difference between a happy and an unhappy guest. If the room feels like an extension of your home — after you put the suitcases away — then you've been successful."

In Asia, where space is at a premium, hotel rooms tend to be smaller. At some hotels, the rooms are so small that you have to go into the corridor to change your mind. On the other hand, there are hotels that make effective use of space. One is the Regent. The third floor features floor-to-ceiling windows in each guest room overlooking the harbor.

Ultimately, good design doesn't come down to room size, but to the way the space in the room is used.

When Greg and Marcia Roncari purchased a six-and-a-half-acre parcel of land in St. Croix in 1986, the land was zoned for 140 hotel units. But he only built 43. "To me," he says, "the size of the room is not important. The scale of space in the room is key. The room has to feel right, like an old baseball glove or a comfortable pair of shoes."

What about older hotels? Take the Mark Hotel in New York. When new owners took possession of the old Madison Avenue hotel, they gutted it, reduced the number of rooms, greatly expanded bedroom and bathroom size, and concentrated on user-friendly furniture — and lighting.

The designers paid particular attention to guest bathrooms, which are oversized and have sunken tubs. It doesn't take a travel genius to know that guests spend more waking time in their bathrooms than anywhere else in the hotel, and if they're happy in their bathroom, they'll be happy with the room as a whole.

In London, functional design — especially in bathrooms — was everything when Henry Togna and his wife Suzanne took over a small, indistinct 13-suite hotel called 22 Jermyn Street. "Guests spend more waking hours in their bathrooms than anywhere else," says Togna. He imported oversized bathtubs, washbasins and special granite tiles from Italy and designed the bathrooms with extra space and light within the existing structure of the building. "If you don't feel good in that bathroom," Togna says, "you won't feel good anywhere else in the hotel." At Jermyn Street, the bathroom is merely an indicator of the quality of the rest of the hotel as well as the thoughtfulness of the design.

Sometimes an existing structure doesn't allow for such sweeping changes. At the

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Intercontinental Hotel in New York, designers were burdened with the existing physical plant. "We couldn't enlarge the existing bathrooms," reports designer Joseph Gruszczak, "so we concentrated on the lighting. Then we installed pedestal sinks, full-length mirrors and central light switches at the room entrance and bedside."

Karen Lewis, who did the interior design for the Charles Hotel in Cambridge, Massachusetts, worked with 38 different guest room layouts for the 300-room hotel. "The key in design is the concept of territory," she says. "When I check into a room I want to think it's my territory. I want to control my own comfort level. I want the windows to open. And I hate pseudo antiques. In the war between design and function," she says, "you want function to win."

At the Charles, the furniture makes sense with the room; the windows open, and desks aren't ornamental — you can actually work on them.

Room colors are also important. "I argued against peaches or beiges," says Lewis, "and just because we're blocks from the Harvard campus, I also fought the urge for crimson."

"It really gets down to the basics," says Stephen Gold, general manager of the Sheraton Grande in Torrey Pines, California. "If you want something, you have to ask. Specify the kind of bed you want, or whether you want a no-smoking room. If a hotel has a golf course, ask for a room as close to it as possible — less car noise," he says. Some other patented Gold tips: "Just because a hotel says it has room service, don't assume it's open 24 hours a day. Make them define it. Is the menu limited after a certain hour? Do you get a newspaper every morning at your door? And," he says, "you also need to pin down the hours for the hotel's business center. It does you no good if it closes at 8 p.m. and that's when you need to have all your stuff typed for Hong Kong or London." Last but not least is Gold's aesthetic warning: "A number of hotels boast that they have rooms near lovely garden settings. And they do. But be careful. The setting may indeed be lovely — until you discover the hotel is using it for a wedding ceremony! Always ask up front if the garden area in front of your room will be used for anything, unless of course you want to catch the bouquet."

Layovers You Can Love

It's estimated that the average executive spends 29 days per year on business travel. But you don't need an estimate to know that he or she spends a great deal of that time waiting at airports.

The average business traveler spends 21 days a year simply "in transit." Personal and air traffic scheduling, layovers and bad weather have combined to create long waits for many passengers at domestic and international airports.

Much of the boredom of waiting is slowly but surely changing for the better. There are now a number of airports actually worth getting stuck in, even if you're hungry!

In the very recent past, airport food was nothing short of pedestrian, airport shopping was limited and folks who needed sleep had to perfect the painful art of doing so in the upright position.

But now, at a growing number of airports, you can find first-class shopping (some U.S. airports even have Eddie Bauer clothing stores), eat food that's good as well as nutritious, be entertained, take a shower or even sleep in a real bed.

You can have a sauna, exercise, buy a rare book; you can use a fully operating temporary office, complete with secretary, fax machines and personal computers.

In short, many airports are trying to become a practical extension of your daily life.

"People are becoming more health conscious when they travel," says Mary Rose Loney, first deputy commissioner at Chicago's O'Hare, "and they're concerned about what they eat. They're no longer satisfied with a no-name hot dog on the run between departure gates. They not only want lighter, healthier foods, but products they recognize."

Not surprisingly, many brand-name fast food outlets are springing up at airports all across the country — ranging from McDonald's and Wendy's to TCBY yogurt and Domino's Pizza.

One airport terminal concessions company estimates that the typical traveler spends nearly $5 at the airport each trip, but that figure is soaring. Why? "Because the traveler is demanding more in terms of variety and quality," says Thomas Cangemi, president of Dobbs Houses, the company that operates 380 food and beverage and general merchandise concessions in 28 airports. "Airports are becoming more like malls. In the past, you'd find just a snack bar at an airport. Not anymore."

Another change: Cigarette smoking levels are down at most U.S. airports, good news for nonsmokers.

Still, the number one airport food item is hot dogs. At Chicago's O'Hare airport, travelers ate more than 2.25 million hot dogs last year (topping them with more than 1,800 gallons of catsup, 2,900 gallons of mustard and 3,600 gallons of relish). But, reports O'Hare's Loney, that number won't be as high this year.

Want great pizza? You can now get it at O'Hare. (It's called Pizza Strada, and it's Jay Leno's favorite food between planes).

You can also eat very well in one of the oyster bars at Logan International Airport in Boston. In Terminal C you can get lobsters to go — they sell for $9.95 a pound with an additional $2.50 for a lined airtight bag, good for eight hours of travel. Or, if your flight will be a little longer, a $5 box keeps lobster fresh for up to 24 hours. At Portland's International Airport you can also get lobster, but the most popular item is the Northwest Alder smoked salmon. There's even an airport sushi bar. Fresh crab and salmon are always on the menu at the San Francisco airport restaurants.

At Honolulu International, you can beat a long layover by renting a bed at the "Shower Tree" for $18 per day (one important note: This is really for short layovers — checkout is before 10:30 p.m.). Or you can stay overnight for $30. If you're traveling with a spouse or friend, you can rent a room together for $45 — but you'll only get two single beds. Showers, towels and soap are included as well as transportation to and from the airport (only a mile away).

At Mitchell Field in Milwaukee, check out the recently expanded Renaissance Book Shop on the Concourse level. The bookstore sells over 60,000 volumes of new, used and rare books — and it is exceptionally well-stocked. Many travelers who have visited the store during layovers now call it frequently for hard-to-find tomes. And other travelers who buy books there have them shipped home — no sales tax and no excess baggage.

There are dozens of stores at Denver's Stapleton Airport. And at St. Louis' Lambert

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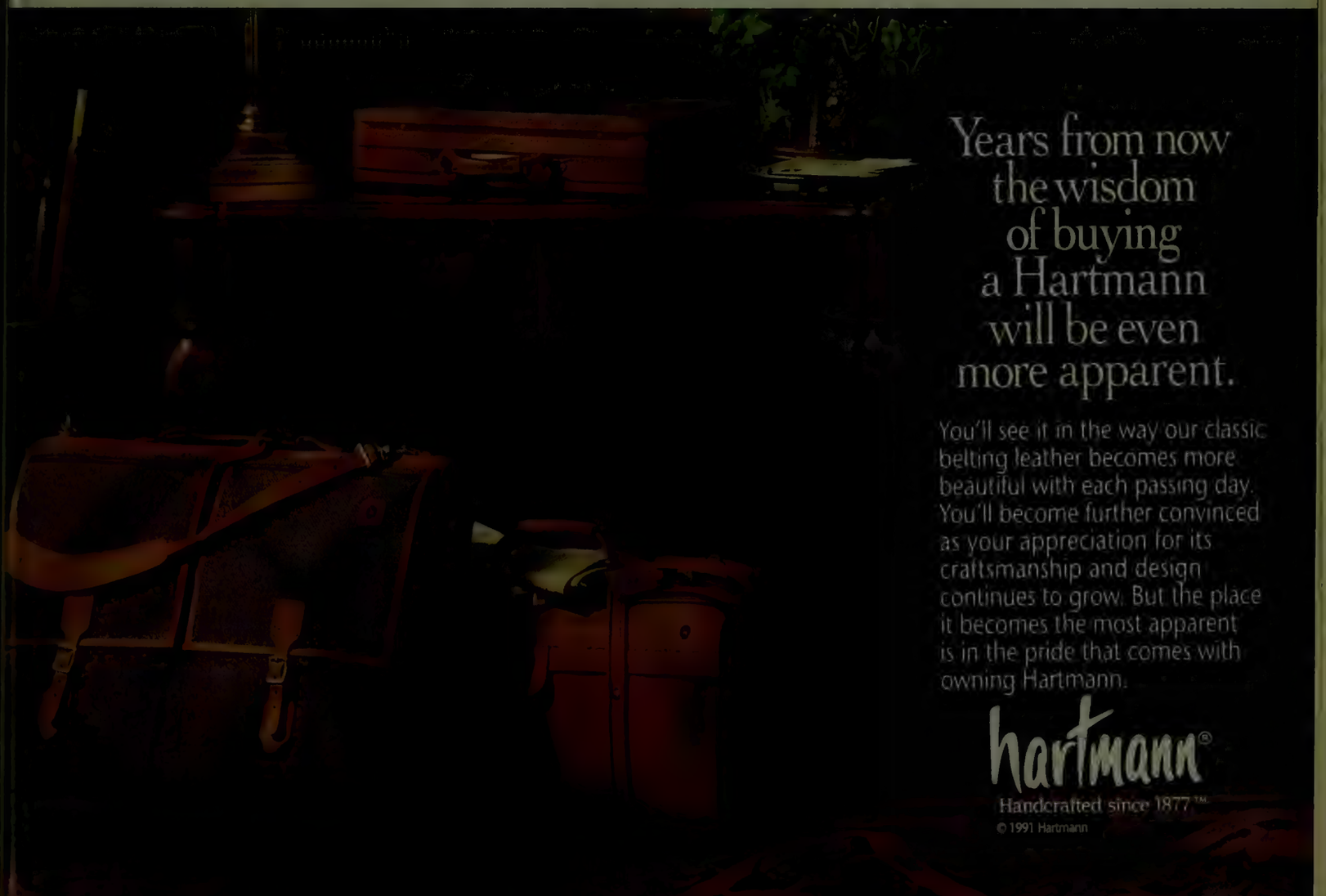

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CONTINUED FROM PAGE 11

Field, there's a child's nursery on each of the four concourses.

At Dallas-Fort Worth, there's a Mexican store that sells pottery. There's a golf pro shop at the Jacksonville airport. (PGA golf shirts sell there for $29.95. Outside the airport they sell for $60.)

At the Tampa Airport, there's even a National Wildlife Federation shop.

At JFK, there's a Bloomingdale's outlet (Bloomie's Express) located in the Delta terminal. And at the Pittsburgh Airport, plans are underway to open a small spa, complete with massage.

The new third terminal at the Toronto airport offers everything from moccasins to antiques. It's called the Trillium, and features everything from a special caviar shop to upscale clothing outlets and even a branch of Harrod's, complete with more than 300 of the store's famous brand-name products.

Washington National's location is excellent, especially if you have a few hours. It's only 20 minutes by the city's Metro Rail subway (or shorter by taxi) to most of the major monuments and museums.

The same is true for New York's LaGuardia airport. Again, a short cab ride will get you to the Water's Edge, a great restaurant at the East River Yacht Club in Long Island City. (Eating Wellfleet oysters and caviar with a panoramic view of Manhattan's skyline is infinitely more desirable than watching a departure screen.)

Some travelers use their airport layover periods in other, possibly more constructive ways. A number of airline passengers landing at New York's Kennedy and connecting to or from international flights make use of the airport's full-time dental facilities. You can find Dr. Robert Trager in Room 2311 in the International Arrivals building.

If you're ever stuck at the Dallas-Fort Worth Airport and have the time to play a round of golf, the Hyatt Bear Creek Golf and Racquet Club is located at the airport. For $75 the Hyatt Regency DFW will give you a day room and full use of the health club. Two 18-hole golf courses, racquetball and tennis courts are open to the public.

If you're flying to Europe, try landing at Copenhagen. At Kastrup airport, 70% of all operations belong to SAS, one of the most efficient airlines in the world.

At Tokyo's Narita airport, a tour company offers a series of four tours from Narita — and for longer layovers, the company even offers a full-day tour to Tokyo Disneyland (with five hours at the park).

In the United Kingdom, duty-free shops at airports are underutilized. One recent survey showed that while the typical airport passenger spends more than an hour in the airport, less than 7% of his time is spent browsing in shops.

At a growing number of airports, you can find first-class shopping, eat food that's good as well as nutritious, be entertained, take a shower or even sleep in a real bed.

But in Amsterdam and Paris, the airport shops are jammed with buyers eager for duty-free bargains. And at Paris' Charles DeGaulle airport, look for one of the better delicatessens anywhere.

You can find one of Europe's most complete shopping centers at the Frankfurt-Main airport. The 100-shop complex opens early and closes late. The stores sell everything from smoked salmon to stuffed toy bears. There are 30 restaurants, two supermarkets, antique and modern art stores, Harrod's, a pharmacy, dry cleaner, locksmith and shoemaker.

Other statistics are equally overwhelming. There are four movie theaters, a discotheque and the biggest airport medical clinic in the world with three doctors, a dentist and a staff of 50.

Maybe that's why more than 4,000 people — none of whom have any travel plans — flock to the airport each day, just to visit. And, if you get tired, there are great hotels within the airport perimeter.

By contrast, no one sleeps during layovers at the second-largest transit airport in the world. Most passengers have just an hour during refueling stops at the Dubai International Airport in the United Arab Emirates. They hit the ground running and head immediately for the airport's duty-free shopping complex, 22,000 square feet of the world's most intense (and inexpensive) shopping experiences.

Dubai is a duty-free port, and the duty-free complex offers products at unbelievable prices — a liter of premium-name scotch for $3.75, a carton of American cigarettes for $5.85 and inexpensive chocolates.

Real bargains can be found on high-ticket items: Perfume is up to 40% cheaper than anywhere else; a half-kilo of beluga caviar can be purchased for $90 and gold is sold by weight. There's a special room for Cuban cigars, and even a fur shop where a mink coat sells for just $1,800.

Indeed, if you like to shop, Dubai remains the best excuse for a layover in that region of the world. Last year, the operation sold more than $47 million worth of duty-free items, including a ton of caviar and more than 40 tons of Tobler chocolates.

Not long ago, an airplane from LOT, the Polish airline, landed in Dubai on a flight from Delhi. The passengers rushed to the stores, cash in hand. An hour later, the plane was almost overweight when it roared down the runway toward its final destination in Warsaw. In just 60 minutes the passengers had purchased 89 videocassette players and 78 cases of scotch.

Now, that was a layover to remember.

Peter S. Greenberg is an award-winning author, Los Angeles Times Syndicate travel columnist — appearing in more than 50 U.S. and foreign newspapers — and the Travel Editor for ABC's "The Home Show." He is also a seasoned "road warrior."

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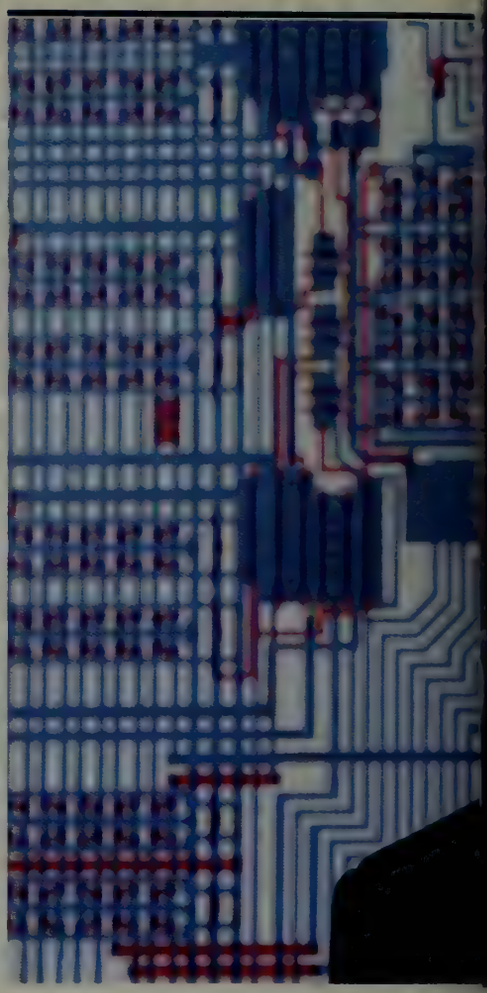
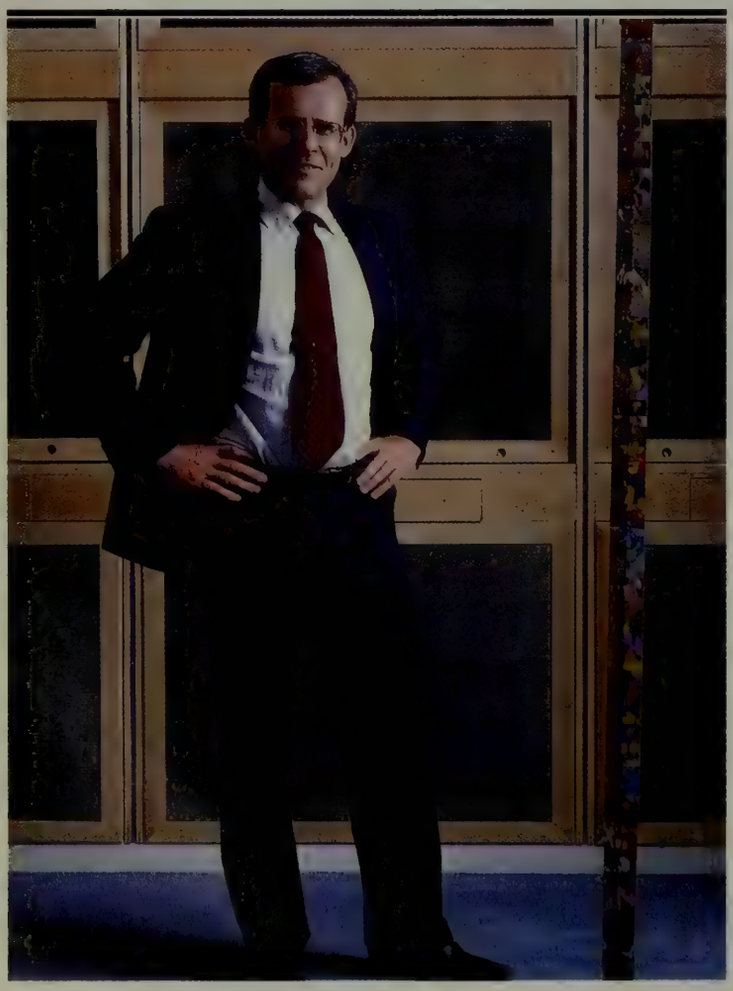
Bull? or albatross?

By Paul Klebnikov



IN 1966 France's President Charles de Gaulle took umbrage when the U.S. blocked the sale of a Control Data Corp. mainframe to the French atomic energy authority. The result was "Plan Calcul," a crash program to develop France's own mainframes. Like most government programs, this one soon took on a life of its own, persisting long after its original purpose was forgotten.

Plan Calcul survives today in Cie. des Machines Bull—an albatross for French taxpayers. In 1990 Paris-based Bull lost $1.2 billion on sales of $6.3 billion; for 1991 the company expects to report a further loss of about $600 million on flat sales. Saddled with a long-term debt of $1.7 billion and a negative equity of nearly $200 million, Bull might seem a candidate for bankruptcy court but for one thing: The French government owns 93% of the stock.



Stephane Speiser

Archive

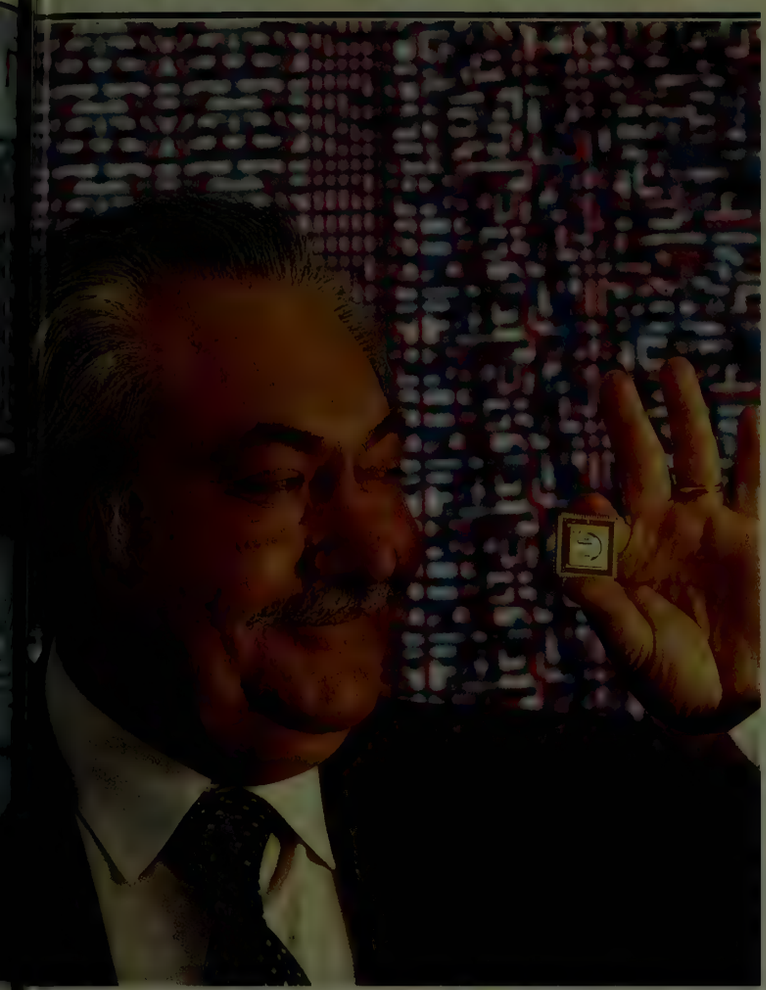
Charles de Gaulle inspired France's "national champion" in computers; Francis Lorentz (left) runs it **"Our customers worry that there is political interference in the company's decisions."**

Bull's problems begin with what the government was trying to do in financing it: preserve jobs and preserve national pride. You can maybe do those things with highways and impressive public buildings, but a computer company must be focused on serving customers, not on making politicians look good.

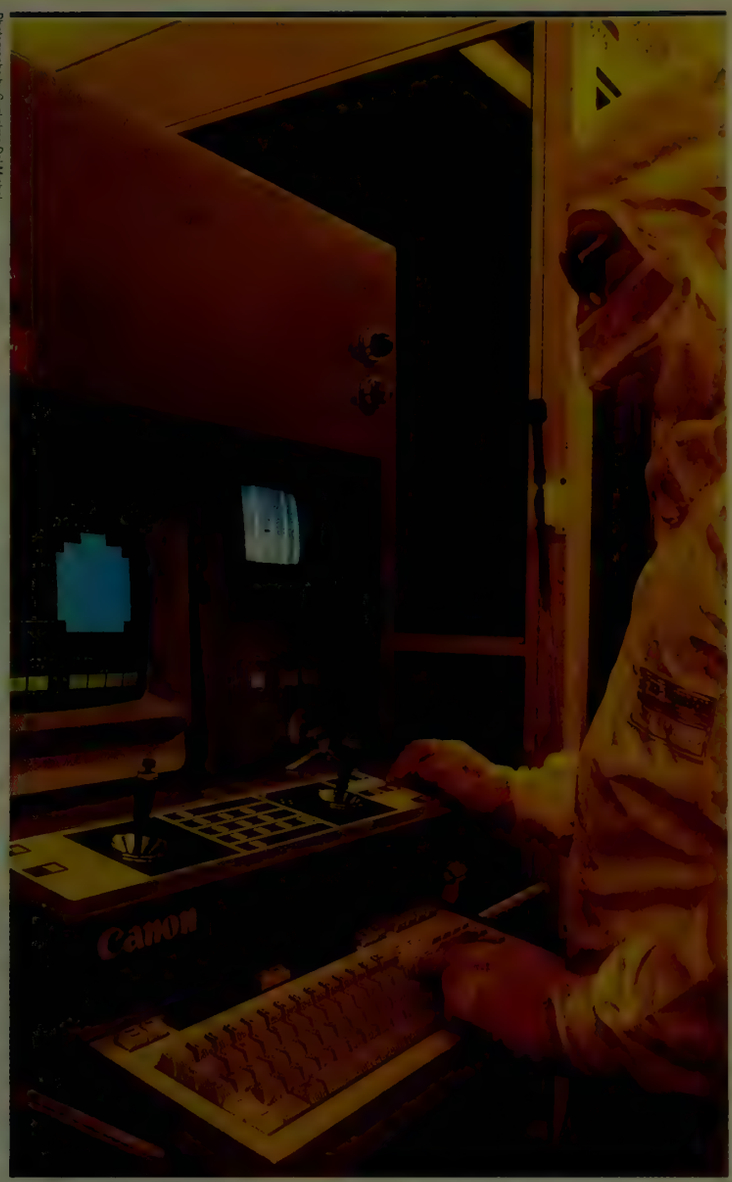
The person running Bull is no computer industry veteran but Francis Lorentz, 49, a career civil servant at the Treasury Department who was tapped to manage Bull in September 1982, after François Mitterrand's Socialist Party came to power.

In November 1990, with growth in computer demand coming to an abrupt halt, Lorentz finally began to do what government employers hate to do: fire people. Since then Bull has eliminated several research, manufacturing and sales organizations, cutting 9,000 jobs, 20% of the work force. It may be too little, too late: It almost certainly won't put Bull in the black this year.

Throughout the 1980s computer makers like IBM, Hewlett-Packard and Digital Equipment were making huge



Photographs by Guglielmo De Micheli



SGS-Thomson Chief Executive Pasquale Pistorio (above); masking procedure on silicon wafer production line

"We do not have the same generation of machine tools as the Japanese, so we have to work harder for the same result," says one R&D manager.

profits from the European market. But not Bull. Even in the boom years Bull could manage only tiny profits. When the growth of the computer market slowed in 1990, the roof over Bull caved in.

As might be expected of a company whose goals were directed by the government rather than by the marketplace, Bull was caught on the wrong side of evolving technology. It remained committed to supplying mainframes to its traditional customers: the French government, banks and insurance companies. But the world was ready for personal computers, workstations and minis. Suddenly Bull had to develop these machines and the operating systems and application software to go with them. It was almost impossible for Bull to achieve economies of scale.

Only 35% of Bull's product line runs on standards like MS-DOS or Unix. The rest runs on one of at least four proprietary Bull architectures. All these systems force Bull, at considerable expense, to come up with upgrades and applications software. And customers are understandably hesitant to invest in such relatively isolated systems.

Michel Bloch, the portly, silver-haired chief of the systems products division, is trying to sort out this mess. An electrical engineer who joined Bull back in 1962, Bloch supervises the 2,000 programmers and engineers working on a new distributed computing "model" announced a year ago. The model is meant to provide Bull customers with a path to combine their proprietary systems with an open, Unix-based design.

Bull also has work to do on Zenith Data Systems. Bull bought Zenith in 1989, at a time when this division of the U.S. television firm was the market leader in laptops and the world's second-largest producer of IBM-compatible PCs. In 1988 Zenith boasted operating profits of $65 million on sales of $1.4 billion. But by the end of 1990, Zenith's sales had fallen 20%; the operation recorded a net loss of $83 million in 1989 and $197 million in 1990. For that Bull paid more than a half-billion dollars.

Bull's managers blame the troubles at Zenith on everything but Bull management. They attribute Zenith's deterioration in part to a sharp fall in U.S. government orders, and say that managers at Zenith Electronics Corp. exaggerated the health of the computer operations. There is probably some truth to this, since, after some legal wrangling, Bull succeeded in lowering the preliminary $635 million purchase price by 20%.

But there's more wrong with Bull than one overpriced acquisition.

Speed of research and development is everything in the computer business, and there is evidence that Bull is slow to catch on to new technology.

Bull lost more than two years in entering the race to produce reduced-instruction-set computing. The story is one of mismanagement and misjudgment. In 1989 Lorentz signed up Sunnyvale, Calif.-based Mips Computer Systems to produce Risc microprocessors for Bull's minicomputers. Why Mips? "One of the advantages was that they were fully technologically independent," says Lorentz. Mips, that is, unlike IBM or HP, was small enough not to threaten Bull's independence.

But by 1991, he says, it became clear Mips wasn't up to the job. So, in January 1992 Bull signed up IBM to provide the technology, more than a decade after the first American companies had announced their commitment to Risc.

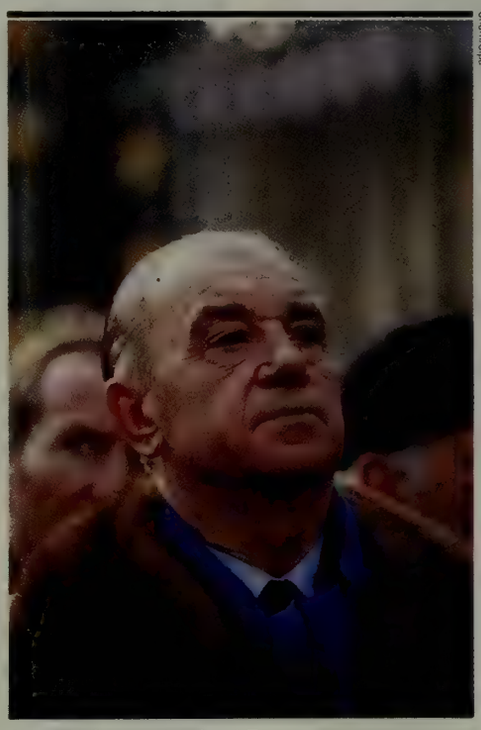
The preliminary deal includes IBM's pledge to invest about $100 million in Bull and resell about 150,000 Zenith portables a year. Bull gets to license IBM's Risc architecture for its midrange machines, giving Bull customers access to all the software that's developed for IBM. In exchange Bull will probably improve IBM's access to the chauvinistic French government market, plus give it access to some Bull technology that may or may not prove valuable to IBM.

Machines Bull is not the only monument to an outdated concept of national self-sufficiency in Europe. There's also Franco-Italian SGS-Thomson Microelectronics.

Now that NEC, Fujitsu, Mitsubishi and Hitachi are setting up chipmaking facilities in Europe, European chipmakers are sounding the alarm. "It's like a drug dealer pushing free drugs to get you addicted," says Giuseppe Zocchi, research director at SGS-Thomson. He's arguing that European companies must manufacture their own computer chips even if the Japanese can sell them much cheaper.

Owned mostly by two French and Italian state companies, SGS-Thomson is one of Europe's last remaining chip producers. And it's struggling. In 1990, even with research grants from the European Community, SGS-Thomson lost $97 million; because of restructuring costs, the losses for 1991 will be about the same.

Led by Chief Executive Pasquale Pistorio, a veteran of Motorola, SGS-Thomson has begun chopping away at costs, closing six manufacturing plants and laying off thousands of workers. But politics keep intruding. Fear of relying on the Japanese made Pistorio order that his company's chipmaking equipment be European or at least American, whenever possible. This is a questionable strategy, given that the Japanese make the most advanced chipmaking machines.



ChamSipa

Special Counselor Abel Farnoux
"One can't imagine a country without its own computer industry."

SGS-Thomson is somewhat stronger in the marketplace than is Machines Bull. SGS-Thomson is one of the world's top producers of Eproms, one of the three major classes of memory chips. Using this expertise, the company is in a strong position to develop flash memories, the next generation of chips, which could replace disk drives in portable computers. At Inmos, its British subsidiary, SGS-Thomson produces a sophisticated chip used in image processing.

But SGS-Thomson still needs to reach the 5% world market share that chipmakers need for economies of scale. "The problem is not technology, but finance," says Pistorio. "Our ambitions have not been matched by the availability of the equity." This means that SGS-Thomson will probably need to merge or sign an alliance with a stronger partner to expand its operations.

SGS-Thomson serves major customers: consumer electronics companies like Thomson, telecommunications companies like Alcatel, auto parts makers like Bosch and computer makers like Olivetti. But none of these has felt strongly enough about SGS-Thomson's continued survival to step forward with the equity investment.

Once again, the French government has stepped into the breach. It wants to link SGS-Thomson to CEA-Industrie, the state-owned builder and operator of nuclear power plants. CEA has a war chest of $4 billion, and its profits have averaged over $300 million a year since 1986. If the deal goes through, the French taxpayer will no longer have to foot SGS-Thomson's bill. That honor will pass to the French electricity consumer.

As for Machines Bull, despite all the losses, the French state is not about to give up. Abel Farnoux, special adviser to Prime Minister Edith Cresson and one of the architects of France's current industrial policy, stands behind Bull. In his elegant Left Bank office, lined with Chinese prints and old leather-bound books, Farnoux declares: "In the modern world one can't imagine a country without its own computer industry and its own telecommunications industry. [These systems] define its very civilization. It's as simple as that."

But is it? IBM in France is as French as Bull is. In these days when economic borders are crumbling—even if political borders are not—the best companies are multinational, and so is technology.

At any rate, it should be clear to anyone but a 100%-committed socialist that governments are lousy at running businesses. Farnoux speaks of telecommunications. With Alcatel, the telecommunications giant, France is a power in that business. It is becoming a giant in computer software with Cap Gemini Sogeti, the $1.7 billion (1990 sales) French software company. But these are private companies, with a market mission, not a political mission.

Nightmare Scenario #2

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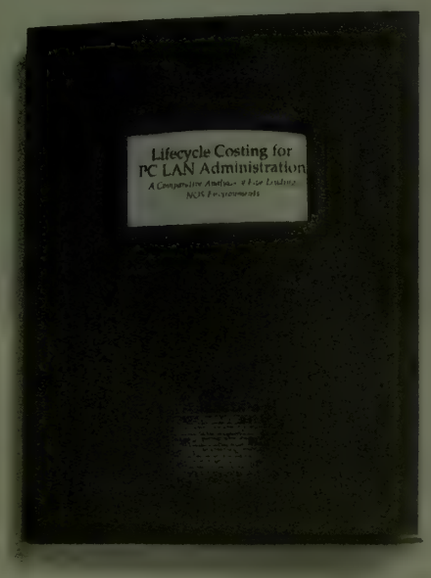

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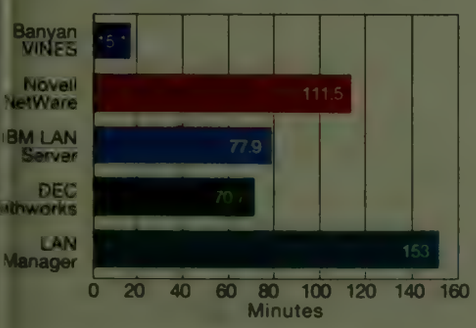

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Apple cofounder Mike Markkula has a big dream: a world of cheap, ubiquitous "neuron" chips.

Universal intelligence

By Julie Pitta

Mike Markkula
For sale:
1 billion neurons.

William Mercer McLeod

ALONG WITH THE better-known Steve Jobs and Steve Wozniak, A.C. (Mike) Markkula founded Apple Computer. Now 50, rich as Croesus and long gone from Apple management, Markkula is innovating again. His Echelon Corp., of Palo Alto, Calif., is working on a smart chip that Markkula says is versatile enough to automate everything from an assembly line to the light fixtures in a home. He calls it, borrowing from the lingo of neural networks, a "neuron" chip.

Echelon's chip is a microcontroller similar to the ones used in the control panel of a microwave oven or the remote control for a TV. What's different about Echelon's chips is that they can talk to each other to create a network of gadgets.

"The number of gadgets with these chips embedded that could be sold in a mature market will be greater than all the semiconductor devices sold today," says Markkula. "The utopia for Echelon is that you'll be able to walk into any hardware store and any gadget you buy will have one of our chips embedded in the base."

Putting such chips in a coffeemaker, say, or a toaster would enable them to interract. The coffeemaker starts brewing at dawn. Once finished, it signals the toaster to go on.

A fringe idea? Markkula at least speaks with the authority of someone worth $675 million and able to convince several big names to join him. His investors include Motorola and famed venture capitalist Arthur Rock, and his chief executive is ROLM cofounder M. Kenneth Oshman.

"Not every project is as full of risk as this one," says Peter Crisp, an early investor in Apple and now Echelon. "But the market potential is huge." Potential is a word that crops up often at Echelon. The current version of the chip, containing 400,000 transistors, does work, although it's too early to say how well. What's murkier still is whether manufacturers will want to put these things in their toasters and so on. They may not see the virtue of a world with a universal appliance chip. Today they can get custom-made control chips from a wide variety of suppliers.

None of these doubts assails Markkula. An engineer by training who broke in at Fairchild, he has been toying with the idea of intelligent electronics since his days at Apple. "The more ubiquitous a technology has the potential to become, the more Mike is fascinated by it," says Apple Vice President Albert Eisenstat. Markkula hired the first engineers for his chip six years ago. Early on, Markkula offered a prototype of the chip to Apple and was turned down. "We still think we made the right decision," says Eisenstat.

A year after signing on, a frustrated Oshman came close to folding the project. Markkula toyed with merging Echelon into an established electronics company. Instead, Oshman and Markkula decided in effect to take in partners, persuading Motorola and Toshiba to agree to make and sell the chips, help with research and development and pay Echelon royalties. Motorola also agreed to invest $20 million in Echelon and in return receive a 19% stake.

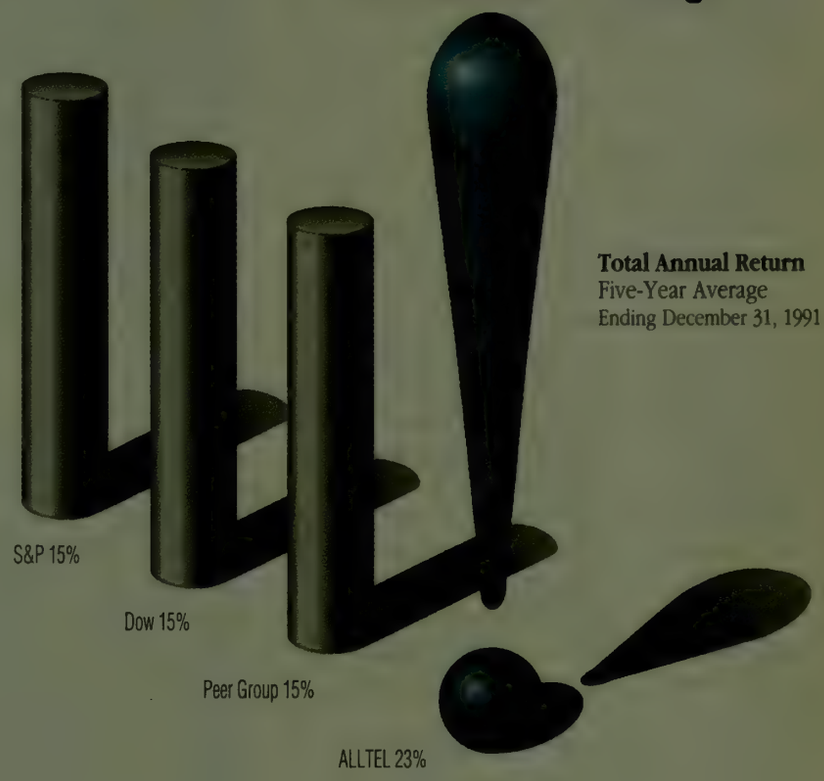
Echelon has 100 employees, many of them working on software that helps customers program the chips and design intelligent products around them. Like competing control chips, the Echelon neurons contain so-called programmable memory, which allows them to be customized. The Echelon chips, which Motorola is pricing at about $12, have 64 kilobytes of programmable memory and three processors, two of them to send or receive messages.

Potter Electric Signal Co., a small St. Louis manufacturer, has used a batch of Echelon's neurons in smoke alarms, each smart enough to call the fire department. Other manufacturers have designed the neurons into systems to control the environment of a chicken coop, monitor the amount of alcohol poured at a bar or make elevators more intelligent.

Terry Weaver, a vice president at Johnson Controls, the Milwaukee building controls firm, says he is experimenting with Echelon neurons. It's unlikely that he will put an entire office building under the control of one of these things. But Weaver says a cheap chip might nonetheless be useful in a wall switch. If equipped with ancillary electronic sensors that sense the presence of a person in a room, a neuron-equipped switch could cut electric bills.

"If everyone's using the same integrated circuit, the volumes will be enormous—it would be billions of neurons per year," Oshman says. "The benefit of volume will be that costs will be low. When they're $1, they will go everywhere." Someday, maybe.

Over The Years, We've Made Quite A Mark In Our Industry.



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Re-creating DEC

COMMENTARY BY ESTHER DYSON

Esther Dyson is editor and publisher of the newsletter *Release 1.0.*

GOD COULD CREATE the world in only six days because He didn't have an installed base. That's computer industry wisdom. And that's why the Lord was so creative: He started from scratch. In computing, too, success usually goes to new companies, which, lacking installed bases, don't have a vested interest in old ways.

Consider Digital Equipment Corp., once an upstart in a world dominated by mainframes. As the pioneering minicomputer company, it created a new order. Over a 35-year history, DEC was a stellar performer, and, like today's hero Microsoft, it went from infancy to adulthood with its founder at the helm.

But that old demon success, in the form of installed base, has caught up with DEC. Its customer base of thousands and its $14 billion revenue base represent a mountain of inertia.

DEC's guiding genius, Chief Executive Kenneth Olsen, 62, made some missteps in the 1980s. First he poohpoohed the personal computer, then open systems, then reduced instruction set computing. On all three scores he was wrong.

Is DEC about to wither away? Scarcely. The company may yet overcome the burden of its success.

Two things are significant. One: Olsen is willing to admit past mistakes and start over. Thus, Digital's dazzling new supercomputing chip, the Alpha, will deliver its 400 million instructions per second of performance by relying on a reduced instruction set, the approach poohpoohed by Olsen years ago.

Second, Olsen is remaking the company to focus separately on hardware and software.

It was back in 1984 that Olsen first told an annual meeting, "DEC is a software company." It remained chiefly a hardware company. But this January, just after closing out a quarter with a $138 million loss, Olsen formally established a tangible plan for DEC's software strategy, and put David Stone, 50, in charge as vice president of software engineering.

While keeping its hardware business as a hardware business (and even going into commodity PCs, a step it may regret), the company will "take its software and get a greater reward for it by spraying it everywhere, even on non-Digital platforms," says Stone. Digital has, for example, recently sold software to Olivetti for use on Olivetti machines and sells software directly to users for use on Sun workstations.

Says Stone, "That [$138 million] loss was a tremendous agent for change." So is Stone himself. With the company since 1970, he nevertheless comes from outside in an important sense: He spent 1974 to 1990 in Europe, rising through the ranks and overseeing everything from software services and marketing to a 1,000-member engineering staff. Unlike colleagues who spent a lot of time talking to each other and to existing customers, Stone spent more time talking to people outside DEC.

Stone is also an outsider in another important way: He's a software guy—a fairly uncommon type at DEC. It's not that DEC doesn't know how to develop or even sell software, but it doesn't know how to manage a company that's based upon software.

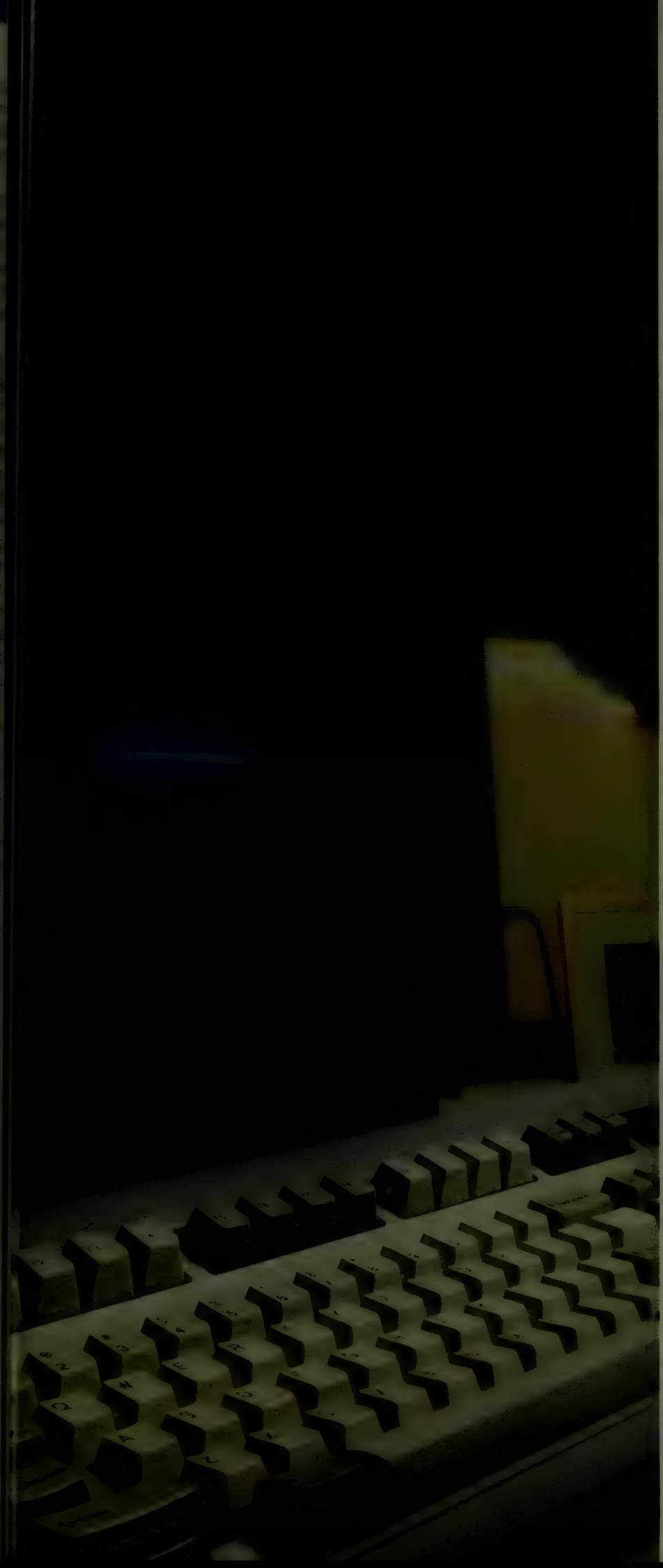
"For the first time," says Stone, "we realize we have to separate the business into two models. Hardware is a commodity where you need high market share and low R&D. Software is different. You need to spend twice as much, maybe 15% of revenues, on R&D, and you need to treat it as a high-value-added service. We were giving away our expertise to sell hardware, and other [hardware] people could undercut our price because they didn't have all the software costs."

That's pretty elementary stuff, and even Digital sort of knew it, but the company didn't act on it in the way it compensated its salespeople and set its budgets. Now, says Stone, "We've got the profit feedback loop about 75% right—and climbing."

In the long run, Stone believes, people will buy computer-processing power and data communications delivered through a wire in the wall or waves in the air, just as they get electricity and radio communication. Unlike electricity, data processing will come in a variety of flavors—for example, bookkeeping, forecasting, document retrieval. But most interesting will be functions best performed by a third party: inventory management between supplier and customer, invoicing and bill-paying, industry data collection, automatic document translation and so on.

Stone wants DEC to move into this business, leapfrogging competitors that still look at software as packages. He sees a battle shaping up much like the one over telephone switchboards. In the past, corporate telephone users switched from Centrex in order to manage their calls internally and bought their own switchboards. But now the Centrex approach—moving the switchboard electronically onto phone company property—is back in style, as organizations expand geographically. Under new brand names, the Centrex approach now offers new services, such as cross-country call-forwarding, caller identification and other services that span more than one site or more than one company.

In similar fashion, the great majority of corporate computer users have preferred to have their computers on-site. DEC wants to fight back by selling not just switchboards (or computers) but also Centrex-style software service. For example, a DEC software service center could fetch electronic invoices from your customers and consolidate them into an order delivered to your factory floor. The Lord created the earth in six days. Things are even more foreshortened in today's computer industry. ■



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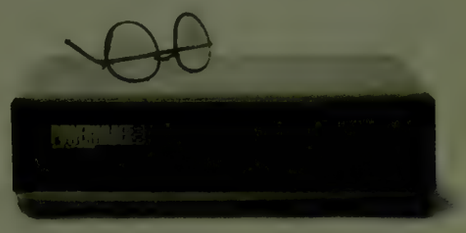

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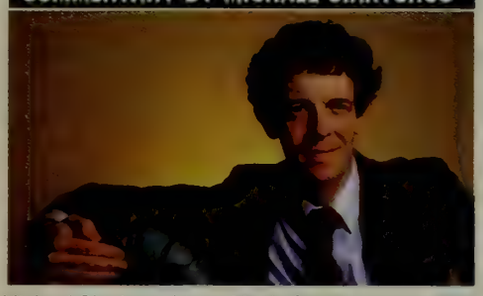
The less obvious network stocks

COMMENTARY BY MICHAEL GIANTURCO



Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

YOU WOULD NEVER KNOW the economy is soft from talking to networking companies. At Spectran, a Sturbridge, Mass. company that makes optical fiber for linking computer networks, the factory lights are burning seven days a week, 24 hours a day. At American Power Conversion in West Kingston, R.I., sales of backup power supplies for computer networks in the recession quarter ended in December were up 69% over the year-ago quarter. For this same period at Lannet Data Communications, a Tel Aviv, Israel company that makes "intelligent hubs" for hub-and-spoke networks, worldwide sales popped up 85%.

Underlying these success stories is a common theme: Computing power continues to migrate from computer rooms to desktops, at the same time that people working in large organizations remain as dependent as ever on being able to trade notes with one another. When computers are linked together to form a network, results entered or produced on any one machine are available to every other computer. Networks also share costly resources, such as printers.

By now, 26 million of the world's 69 million business desktop computers have been linked into networks. Most are small, local area networks consisting of three to a dozen computers, often connected via a device called an intelligent hub. In addition, networks are being linked via internetworking devices called bridges and routers.

A hub is basically a multiple socket, with enough intelligence to spot trouble. The intelligent hubs are able to isolate network problems, so that downed lines on any one spoke to a single computer cannot crash the entire network. In part because of the reliability added by the intelligent hub, the local area network concept took flight in the late 1980s. These small networks of PCs supplant minicomputers in many applications.

Networking has been hot in the stock market for some time. Leading outfits are well known to investors: Novell, Cisco, Cabletron Systems and SynOptics Communications.

On the table is a cross section of some less obvious players. If the sizzling growth and the fat profit margins could keep up for five or ten years, any of the publicly traded computer network stocks would be a buy, even at today's rich prices. Investors, however, would be wise not to bank on a continuation of present trends. Some of these companies are still buys. Others will fall prey to competition or obsolescence.

Network show

Company	Revenue growth*	Net margin	P/E
Lannet Data Commun	85%	34%	30
Chipcom	77	10	53
American Power Conver	69	20	53
Digi International	62	19	23
Xyplex Inc	47	14	29
Spectran	40	25	35

*Fourth quarter 1991 versus year earlier.

These computer networking stocks have steep growth rates—and steep multiples.

Some of these stocks can be naturally paired off for comparison. Lannet and Chipcom, for example, both manufacture intelligent hubs. As an Israeli company, Lannet enjoys special tax breaks that help explain its splendid 34% net profit margin. But I think the nod goes to Chipcom, precisely because its profitability is the lowest on the table. The substantial profit margins in the hub business arise from repeat business, and Chipcom is still building its initial business in intelligent hubs. This augurs well for future profit growth. A negative is that 45% of Chipcom's sales are to a single customer, Digital Equipment. With this caveat, Chipcom is a buy on pullbacks from near $26.

The other pair of stocks on this list is Digi International and Xyplex. Both are in the business of linking "dumb" terminals—terminals that have little or no computing power of their own—into networks. But the dumb terminal is becoming passé, as the prices of powerful small computers sink to levels no one could have foreseen even a year ago. Both Digi and Xyplex are changing and adapting, but I would avoid these two.

American Power Conversion has been discussed in this column *(Jan. 6)* and in an article (FORBES, *Feb. 17*). It has been recommended by many analysts and is a well-managed company. But I think the network power supply business is ultimately vulnerable to price erosion.

Spectran makes its optical fibers under a patent license from Corning. Spectran's coated fibers, called multimode fibers, are designed for linking computers over considerable distances. For this purpose optical fibers are much better than copper wires. Typically, the glass cables are threaded up elevator shafts in buildings to link computers and networks on different floors, and to connect campus-wide networks.

Because of the Corning patent umbrella, and a high threshold of entry in terms of both technology and capital, competition is restricted. Sales this past quarter were $4.7 million. Spectran is an 11-year-old company, coming back from a bad patch in the mid-1980s. A fair buy at $20.

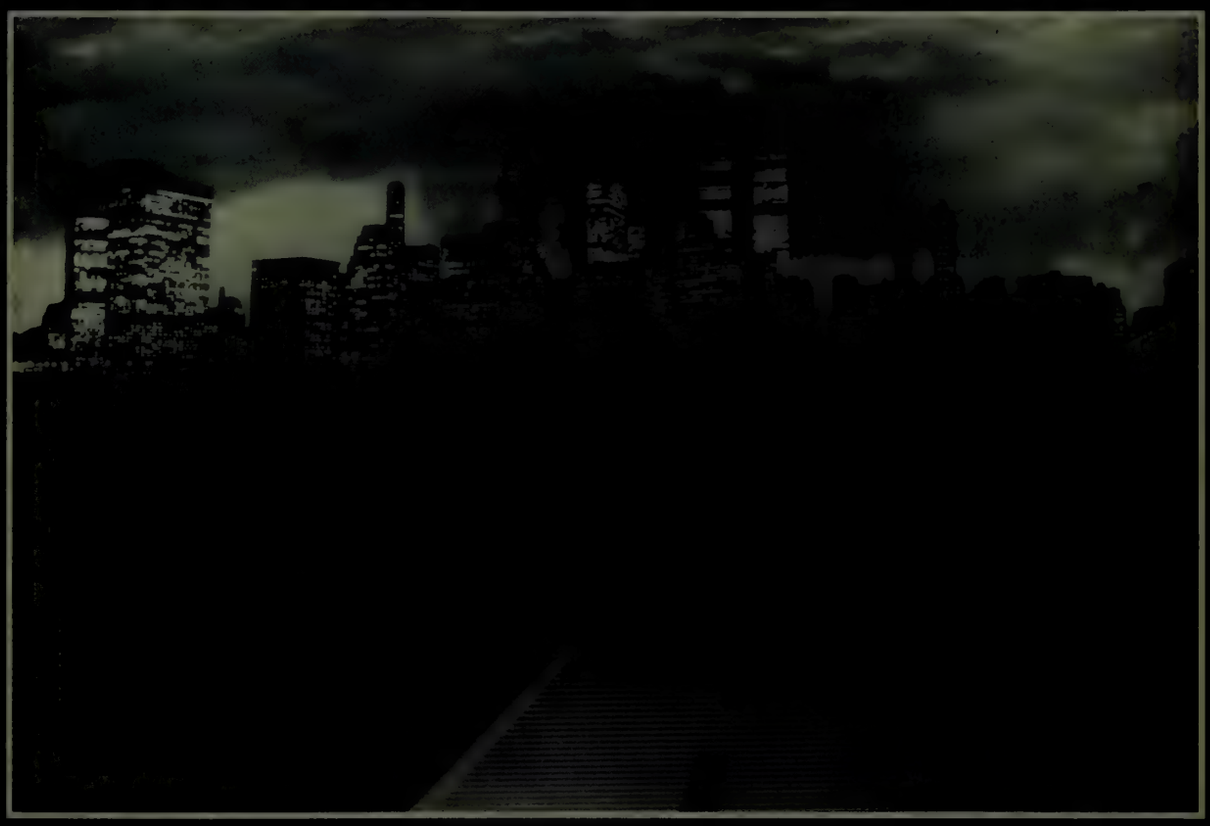
"The eyes have one language everywhere."

George Herbert

True vision is without boundaries. So when the **New York**-based Project ORBIS developed a program to save or restore eyesight, they put a teaching hospital on an airplane and took it around the world.

On board are five Toshiba laptop computers. Not only to record surgical schedules, patient records, and lecture materials, but also to manage the flow of information between the aircraft, Project ORBIS headquarters and its offices throughout the world.

And for the people of Toshiba, it is just one more chance to help see a better tomorrow.



Photograph by Chud Phillip

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In Touch with Tomorrow

TOSHIBA

Today's eyeglasses are a lot more than a way to improve your vision. They're yet another way to make a fashion statement.

Power eyewear

By Brigid McMenamin

GEORGE BUSH and Ted Kennedy wear them. So do Madonna, Sylvester Stallone, Arnold Schwarzenegger, Rand Araskog, Charles Schwab, Marvin Davis and Lee Iacocca.

What all of the above have in common is fashion eyeglasses, chosen as carefully as a suit, necktie, dress or wristwatch to make a statement about the wearer. Says Fredric Grethel of Logo Paris, a big manufacturer of fashion frames: "Power eyewear is key to the successful look."

Southern California's power people are into potent eyeglasses in a big way. Ask Cheryl Shuman, owner of Los Angeles-based Starry Eyes. A former model, Shuman, 30, sells chic frames to the movie crowd, but businessmen are her biggest spenders. "Businessmen . . . and businessmen's wives!" she trills. On the brink of divorce, the wife of a prominent Los Angeles lawyer ordered from Shuman a set of frames in solid 18kt gold with hand-cut diamonds and emeralds. Cost to her soon-to-be-ex-husband: $68,000.

Shuman makes house and office calls, bringing to her clients up to 600 frames to choose from. Most of these are stock frames by Silhouette, Robert La Roche, Gianfranco Ferre, Safilo, Bada, Miyake and other eyewear designers. Such frames cost $150 and up—plus lenses, at about another $150 per set. Shuman, who charges $200 an hour to make her house calls, says her clients usually buy several pairs of glasses at a time, and drop an average of $5,000 per visit.

What's "in" in frames these days? According to top retailers like Larry Sands, of Optical Shop of Aspen, the hottest style in men's eyewear is the vintage look—the kind of spectacles your grandfather wore in the Twenties, Thirties and Forties. These feature metal or metal-and-plastic frames, in round or slightly oval shapes. *Today*

John Wilkes

Frames sold by Joel Name Optique de Paris, a New York eyewear shop
Prices start at $250, and you can even design your own.

Dirck Halstead/Gamma-Liaison

President Bush in his Logo Sigma frames

Albert Ortega/Ron Galella

Bryant Gumbel in preppy tortoise Logos

Senator John Warner sports half-eyes

Show host Bryant Gumbel, for instance, recently started wearing antique-style and preppy tortoise Logo frames, with antireflective lenses *(see box)*. Some designers—including Oliver Peoples, Giorgio Armani Occhiali and Robert LaRoche—also add chic vintage touches like filigree, coined edges, delicately antiqued bridges and temple decor. Prices range from $150 to about $400.

Remember those wire-frame aviator glasses Robert Redford wore in the 1975 movie *Three Days of the Condor*? They struck a responsive chord that still resonates. Both Lee Iacocca and Ted Kennedy wear a similar style: rimless yellow Logo Sigma square aviators made by Logo Paris. Defense Secretary Dick Cheney wears yellow Logo Sirocco square aviators. President Bush favors rimless Logo Sigma frames in yellow or tortoise.

Fashion snobs think the aviator look is hopelessly out of date. Whimpers one trendy optician, when reminded that Iacocca tries to be a fashion plate: "He's a fine man, impeccably dressed. I just cannot understand it."

The fact is, however, that among the rich and influential, comfort and practicality are both important ingredients of the power look. Admits one critic of the aviator look: "Logos *are* unbelievably comfortable."

Stetson is another name associated with comfortable eyeglasses. Zyloware has recently come out with very light frames under the Stetson name. Made of stainless steel, with spring hinges and flexible silicone nosepads, they are endorsed by George Plimpton, Roy Rogers and Steve Allen. Stetson frames retail in the $75 to $200 price range.

Safilo, an Italian manufacturer, also makes Elasta, comfortable frames with silicone nosepads and durable spring hinges. Elasta frames are priced under $100.

If you want fashionable frames so flexible that you can twist them like a pretzel and they'll still bounce back into shape, try Marchon's frames made of the titanium-nickel alloy Flexon ($190 to $240). Among Flexon wearers are David Letterman, Sally Jessy Raphael, Charles Schwab, Domino's Pizza founder Thomas Monaghan and Upjohn Chief Executive Theodore Cooper.

John Wiles

Cartier frames of gold and wood start at $870
The wood is from Africa's exotic bubinga tree.

Want something a little more high tech? Senator John Warner, when he's not wearing half-eyes, wears anodized black and gold electroplated frames, made by Killy Technical Eyewear. They look like aviator frames but are specially made for active sportsmen. The frames feature a shockproof floating bridge, spring

Through the looking plastic

FRAMES MAKE a statement, but lenses make you see. Here are some important recent improvements in eyewear.

■ High-index lenses. Flatter, thinner and lighter than conventional lenses, they do away with the Coke-bottle look, even if you wear strong prescription glasses. But while high-index lenses look fine, they may take some getting used to. Some wearers complain that they distort and discolor their vision too much. So try the lenses before you buy them. (High-index lenses made of polycarbonate plastic also block UV rays.) Cost: around $150.

■ Scratch resistance. Most lenses these days are made of plastic, which scratches more easily than glass. Make sure yours have a scratch-resistant coating applied at the factory, even though this adds slightly to the cost.

■ Antireflective coatings. If reflections from your glasses are a problem for you—if you do a lot of public speaking, or appear on TV, for example—Seiko and Rodenstock make lenses with antireflective coatings, available at an extra cost of around $50.

■ Self-darkening lenses. Rodenstock and Transitions recently came out with plastic lenses that will darken in direct sunlight, almost as Corning's glass lenses have done for years.

■ Seamless bifocals. Sooner or later almost everyone needs bifocals. But you no longer have to put up with that distinctive horizon across the lenses. For about $175, Sola, Varliux and Rodenstock make progressive lenses, which have no telltale seams. So nobody need know you're over 40. By the glasses, anyway.

–B.McM.

temples that release after a fall, and other performance features. Prices: $225 to $420.

Some people insist on gold frames, and Cartier is happy to oblige. Cartier sells solid gold, 18kt frames ($5,500 to $8,500), as well as platinum-plated and 24kt gold-plated frames ($540 to $1,100).

One of Cartier's popular men's styles is the Vendôme, a gold-plated or platinum-plated aviator style with gold details ($640). Even more popular is the Tank, so named to associate it with Cartier's famous Tank wristwatch. The Tank is a rectangular frame with gold details; it retails at $680. Radio commentator Paul Harvey wears Tanks, as did Michael Douglas in the movie *Wall Street.*

Cartier will also be happy to make custom eyewear for you. Singer Elton John, who is to eyeglasses what Imelda Marcos is to shoes, has been seen in Cartier frames. Custom frames of gold and platinum are often studded with diamonds, emeralds and rubies. Price: well north of $14,000.

Cartier's most expensive? Frames with crouching panthers, studded with diamonds and onyx spots, that bridge the brows of 18kt white gold frames. These went to a well-heeled customer for $95,000 (not including lenses).

On the horizon is a retro look, inspired by French fashion eyewear of the 1960s: wraparound styles, shallow shapes, uplifting shapes and the bright, vibrant solid colors seen in this year's selection of frames from Yves Saint Laurent.

If you're looking for something unique and relatively affordable, visit Joel Name Optique de Paris, in New York's Greenwich Village. Owner Joel Nommick sells fashionable eyeglasses by Oliver Peoples, Matsuda and others. But he also lets clients design their own frames, in buffalo horn, wood, plastic or more exotic materials like python, lizard, ostrich or shark skin. With matching cases, Nommick's eyewear goes for $250 and up, not including lenses.

From a business standpoint, demographic trends are definitely on the side of the eyewear makers. About 90% of Americans over age 45 wear glasses, and the population is aging daily. ■

Suppose you amass a vast collection of things no one else seems to care much about. What do you do with it all? One answer is to start a museum.

How a kid's collection grew

By Christie Brown

Mitchell Wolfson Jr. with aluminum sculpture circa 1938 by Cesare Stea

"It's not art for art's sake, it's the art of ideas."

If there were no South Beach section in Miami Beach, Mitchell Wolfson Jr. would have to invent one.

The recently restored area, itself a living museum of art deco, is the perfect setting for Wolfson's private museum of decorative and propaganda art and artifacts, now under construction.

Heir to the Wometco Enterprises (entertainment and communications) fortune, Wolfson, 52, has long been a collector of American and European decorative arts dating from 1885 to 1945. His 60,000-piece collection includes the good, the bad and the bizarre. There are hundreds of barber chairs, Bakelite desks and lamps, matchbooks, lapel buttons, souvenir medallions from world's fairs, toasters, irons, even a massive 40-foot-high art deco facade from a Chicago movie house.

He also has a vast amount of propaganda art from the pre-1945 period—posters, sculpture, paintings, books and pamphlets that touted the political and commercial doctrines of England, Germany, Italy, Holland and the U.S.

"It's not art for art's sake, it's the art of ideas," says Wolfson of his entire collection. "I have things which tell stories contrary to the accepted myths and legends." For example, Wolfson points out the dozens

If it had less legroom, a lesser warranty, and cost thousands more, it could be a Cadillac.

Logic would seem to dictate that when you pay thousands of dollars more for a car, you should get a lot more car. Apparently, in the case of the Cadillac Sedan DeVille versus the Chrysler Fifth Avenue, logic does not apply. Both cars provide ample room for six, air-conditioning, automatic transmission, automatic load leveling, stereo sound system, fully reclining seats, all as standard equipment. Both offer safety and performance. A driver's air bag is standard on the Chrysler Fifth Avenue, as is a powerful fuel-injected, 3.3-liter V-6. Anti-lock brakes are also available. Here, however, is where logic totally falls apart. The restyled Chrysler Fifth Avenue costs thousands less, yet it has more rear legroom than the largest Cadillac.* And it offers a better warranty: bumper-to-bumper protection for 5 years or 50,000 miles.† So if you're looking for a great luxury car, defy logic. Pay less, get more. Chrysler Fifth Avenue. For more information, call 1-800-4A-CHRYSLER.

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of Floridian fireplaces he has accumulated. "Of course we don't need fireplaces in Florida, so that appealed to me," he says.

Most of the collection will be moved into a former South Beach warehouse, a 1920s art deco building once used to store furniture for winter residents. So far, the Miami project has cost Wolfson about $10 million, including the 58,000-square-foot museum itself, which will be open to scholars in the fall of next year. Its first public exhibit, "Arts of Reform and Persuasion: 1885 to 1945," is scheduled to open in 1995 and will travel to museums in London, Tokyo, Berlin and Rome.

Wolfson says he started collecting things as a kid, when he filched his room key from the Baldpate Inn at Estes Park, Colo., during a stopover on his way to summer camp. Ocean liner voyages to Paris with his parents were sources of more items that struck his fancy.

During the 1960s Wolfson became hooked on all sorts of collectibles from the late 19th to early 20th century industrial era. Over the last 20 years he has been buying voraciously, at times picking up 400 decorative items a month from private sellers, dealers, antique shops and auctions all over the world. He spends several months every year looking for items, traveling around the country in his two private railway cars, a 1926 Clover Colony Pullman sleeper attached to a 1926 Hampton Roads saloon car. They are usually pulled by Amtrak or by private engine.

In 1986, overrun with objects in his homes in Miami Beach and near Genoa, Italy, Wolfson decided to start his own museum in Miami Beach. He set up the Wolfsonian Foundation to establish and operate the museum.

But it's far from a one-man show. On an annual budget of $1.3 million, the foundation is staffed by 25 museum professionals who have been unpacking, cataloging, researching and restoring Wolfson's collection for the past five years.

The museum—even before it opens—already has a satellite operation in Genoa, where Wolfson bought an abandoned castle in 1986. The 114-room, 3½-story Castello-MacKenzie Wolfson sits atop the Ligurian hills overlooking the city. Made of steel and brick, it was finished in 1906 by Gino Coppedè for Evan MacKenzie, an Italian businessman of Scottish descent who made millions selling insurance. "It's madly and determinedly eclectic," Wolfson raves. "It looks like a medieval dream." Some would say nightmare. The castle, which is costing Wolfson at least $10 million to restore, is scheduled to open in 1996 with an exhibit of Italian decorative art of the late 19th and early 20th centuries.

Photographs by Steve Starr/SABA

Austrian ball favors from early 1900s

Getting ready for the Wolfsonian.

Spanish Civil War postcard circa 1939

The fine art of propaganda.

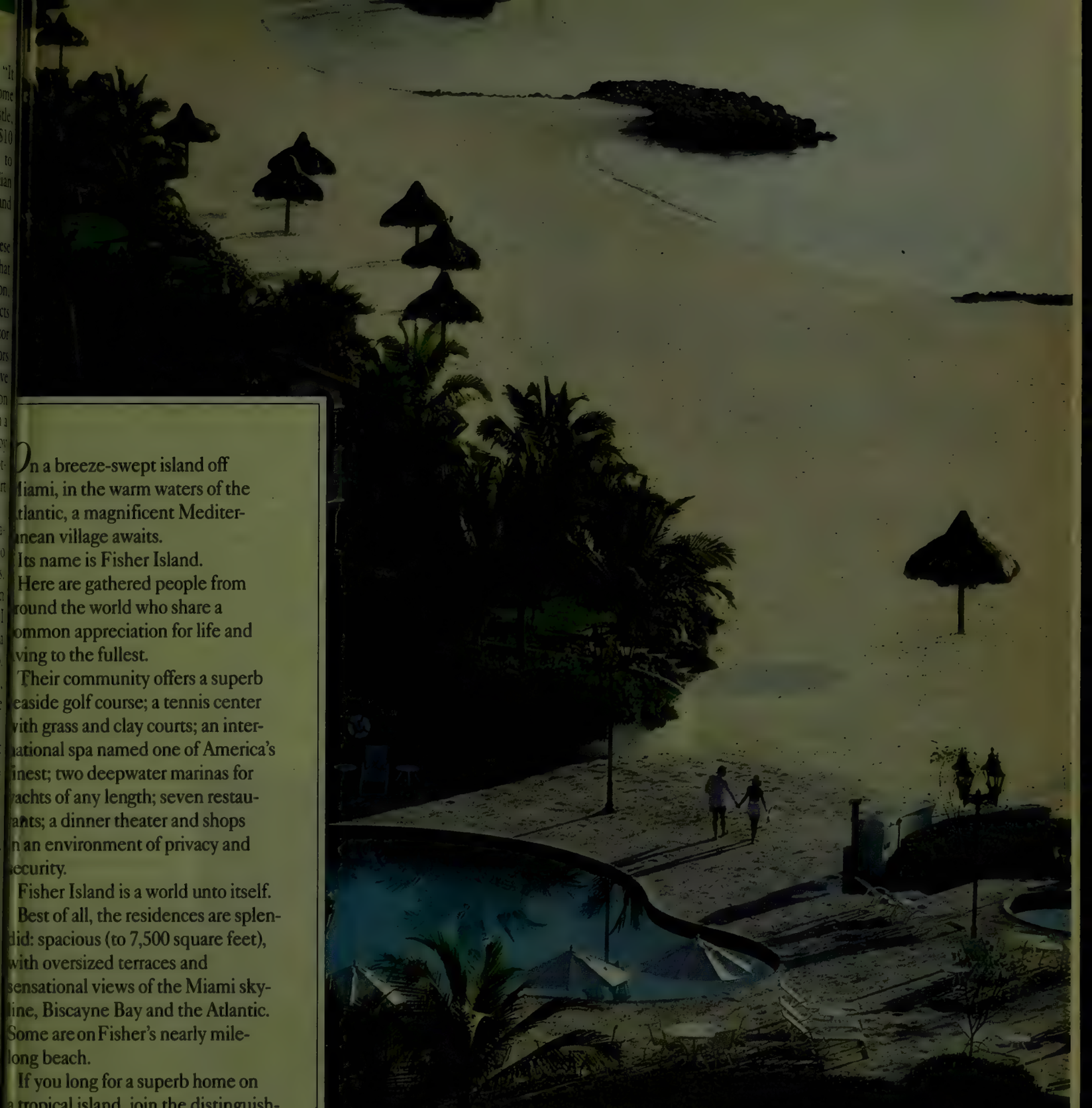
The capital costs of setting up these museums probably exceed what Wolfson paid for his entire collection, which includes thousands of objects like hotel keys, waffle irons, razor blade covers and Austrian ball favors from the turn of the century. "I've spent from a penny to $1 million on items," says Wolfson. What's worth a million? A piece of furniture by Charles Rennie Mackintosh, a Scottish architect important in the art nouveau movement.

Even his propaganda art cost relatively little, since it has scant appeal to most museums or serious collectors. It's hard to spend over $1,000 on propaganda art. British World War II pamphlets advising what to do in a bomb attack can be had for $25 or so. The majority of American, French, British and German war posters range from $50 to $700.

"This stuff is so inexpensive it might as well be junk," says Kenneth Rendell, a top-notch New York City manuscript dealer who has his own collection of propaganda art from the Third Reich. "But a lot is super stuff that paints the picture of an era," he adds. Rendell has bought trunks of propaganda art from charity auctions held by the Royal Air Force Benevolent Fund in London. "I've been looking around to start a museum of my own in New York or Washington," he says.

Is the kind of stuff Wolfson and Rendell collect the next hot collectible? Don't bet on it. The Wolfsonian museums should increase interest, but that's about all. "It's unlikely that prices will rise solely because of it," says Jay Cantor, director of museum services at Christie's.

More important, though, the Wolfsonian is undoubtedly going to spark a lot of fun. The Miami Beach museum is throwing a fundraising bash this coming October—a "Propaganda Ball," says Wolfson. Come as your favorite dictator or Stakhanovite worker.



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When should a premature baby's respirator be turned off? Medical ethicists like John Golenski are helping the medical profession make such decisions.

Questions with human beings attached

By Richard Phalon

IT'S A TRUISM that technology creates careers unheard of a generation ago. But few such pursuits are as specialized—and as rare—as that of John Golenski, S.J., a medical ethicist. Golenski, 44, is one of no more than 300 such full-time operatives in the U.S. His beat: the ambiguous world of medicine's ethical dilemmas—the flip side of such state-of-the-art techniques as neonatal care, kidney transplants and biogenetic engineering.

At their best, these new technologies extend life. But often the quality of that life is questionable and the cost of treatment phenomenal, as in the case of a woman tethered to an artificial-nutrition IV in a Washington, D.C. hospital. The woman lingered through 38 years in a persistent vegetative state.

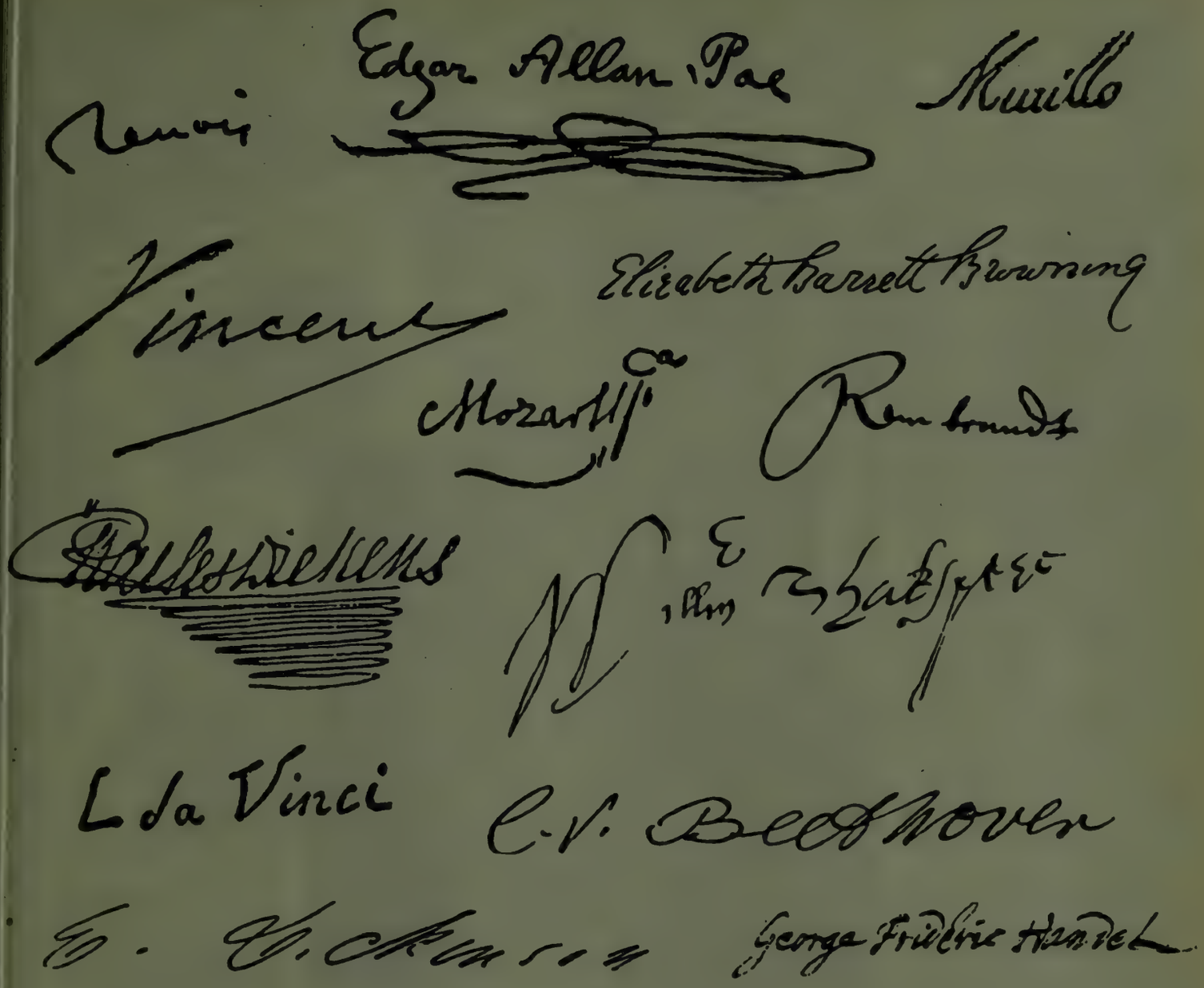
At issue here is a conflict between medicine's duty to preserve life and its duty to preserve it without undue suffering. "The life and death question is deciding when to turn the technology on and when to turn it off," says Golenski.

It's a conflict Golenski has been wrestling with professionally for more than 15 years now. After becoming a Jesuit, Golenski earned a doctorate in child development at Harvard in 1978 and then plunged into pediatric and hospice care—good preparation for the job he took on seven years later as consulting ethicist for the sprawling Kaiser Permanente health maintenance program (today there are 6.5 million members and 36 institutions in 16 states as well as the District of Columbia).

Golenski set up his own firm, Berkeley, Calif.-based Bioethics Consultation Group, Inc., in 1986 and now has a staff of 14. With Kaiser and several other major hospital groups as his clients, Golenski regularly logs about 10,000 airline miles a week,

Ed Kashi

Medical ethicist John Golenski **"The life and death question is deciding when to turn the technology on and when to turn it off."**



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helping hospitals to set up in-house ethics committees. But his real focus is on teaching nurses, doctors and other health care workers how to discuss and form ethical value judgments on some extraordinarily difficult questions. A sampling from Golenski's case files:

■ An 80-year-old minister, felled by a stroke, is beyond all capacity to make any decisions for himself. His daughter argues her father would never have wished to remain suspended in vegetative life, and urges that the nutrition and breathing connections be pulled. But her brothers cite the father's reverence for life, and resist what they think of as euthanasia. Absent what the Supreme Court has called "clear and convincing" evidence of the minister's personal wishes, a perplexed medical staff sticks to the safety of the status quo. "We have got to learn how to talk about death before it's too late," says Golenski, "the medical profession and patients alike."

■ An AIDS patient, already showing some signs of dementia, insists he does not want to be resuscitated if his heart and breathing fail. His lover says the patient has often expressed his distaste for deathbed heroics. But the patient's father tells the doctors he wants them to go all out. A worried ethics committee at the hospital decides the patient is still capable of making choices for himself, but is left with some nagging doubts: Will the lover's corroboration protect the hospital if the father sues?

■ A 1-pound-6-ounce premature baby, born after barely 24 weeks' gestation, has a massive brain bleed in his first week—a sign of likely neurological damage. He is subsequently diagnosed as having Tay-Sachs disease. Though only four out of every ten such very early preemies survive (and only one of those will survive without chronic damage), care in the neonatal wards tends to be aggressive. In this case, though, the outlook was so dim that the staff could ethically agree with the parents that it was in the best interest of the child to turn off his respirator.

Helping committees, individual doctors and other medical personnel cope with the question of when to turn treatment on and when to turn it off, Golenski asks them to distinguish between "ordinary" and "extraordinary" care. Would the intervention be disproportionately burdensome, causing more harm or pain than benefit? Is it "useful" or "futile"? And useful or futile in terms of what? To prolong life? To restore quality of life?

Layne Kennedy

Center for Biomedical Ethics' Arthur Caplan

Overhaul the entire medical system.

"None of these questions is easy," says Golenski. "They all come with human beings attached."

Kaiser Permanente's ethics program and the whole medical ethics movement began to pick up momentum in 1982, when two of the health plan's physicians were threatened with a first-degree murder prosecution for ending life support, with family consent, of a patient in a permanent vegetative state.

But Golenski argues the intent of his sharply focused questions is not defensive and legalistic but rather humanistic—the aim is to sensitize doctors to the kind of care they are giving and to its impact upon society at large as well as upon the individual patient. Golenski notes, for example, that catastrophic illnesses are suffered by 1% of the population but account for about 29% of all medical spending.

Like most of his fellow ethicists, Golenski argues that every allocation of medical resources is at bottom a question of ethics. To the degree that it needlessly jacks up costs and insurance premiums, overly aggressive medicine for a few puts adequate care beyond reach for many.

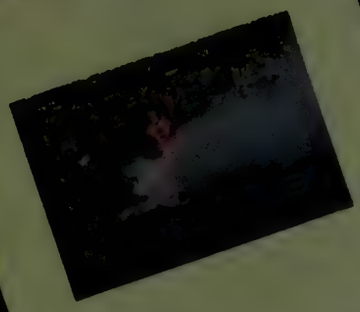
To try to deal with such imbalances, Golenski, in 1989, began working with the Oregon state legislature to come up with a plan to extend Medicaid benefits to more patients. The strategy: Narrow the treatment options to a basic package, redline high-cost, low-efficiency procedures, and with the savings extend Medicaid to all instead of just some of Oregon's poor. Golenski describes his goal this way: "Thin the soup, but extend the line." The new benefit plan, currently awaiting federal regulatory approval, may become a five-year demonstration project that Golenski hopes might one day become part of a model for a national attack on runaway medical and insurance costs.

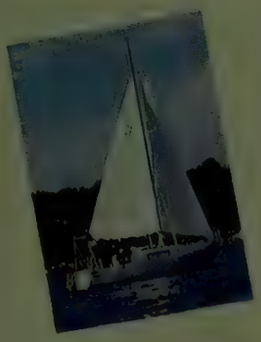
But fellow ethicists, like outspoken Arthur Caplan, who runs the University of Minnesota's Center for Biomedical Ethics, criticize Golenski for what they see as his preference for "rationed" care. "Golenski's talk of thin soup and longer lines is more appropriate to Ebenezer Scrooge than Jesus, Kant, Mill or Niebuhr," says Caplan. Rather than triage the poor, Caplan insists upon overhauling the entire medical system.

To which Golenski replies that he is a pragmatist who's worried about improving health delivery now.

Not one to turn the cheek, Golenski, in a tart retort to Caplan, says, "Those of us who work the wards tend to have a more realistic view about dealing with people and issues than those who labor in the think tanks."

LAND . . . and the security that goes with it





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Mr. Creative

BRANDON TARTIKOFF, the new chairman of Paramount Pictures, is behaving more like the studio's production chief than its top executive. "The worst use of me is to put me in a financial meeting," says Tartikoff. "The best use is to put me in a meeting with a writer or a director or a star and talk story, talk script or talk casting." He adds, impishly: "It would be a tragedy if I delegated the fun to other people."

So far Tartikoff, the 43-year-old Yale graduate whose programming calls kept NBC atop the prime-time ratings for six consecutive years, is being indulged by Paramount Communications President Stanley Jaffe and Chairman Martin Davis. They've hired William Bernstein from Orion Pictures to look after business, leaving Tartikoff free to work up some badly needed hit movies. Battered by a $52 million charge, mostly for film writedowns and a $20-million-plus settlement of ousted studio chairman Frank Mancuso's lawsuit, operating income in the entertainment unit fell to $66 million for the year ended Oct. 31, 1991, down from a high of $297 million in 1987.

Tartikoff is savoring his first success: February's smash opening of *Wayne's World*, a 95-minute stretch of a *Saturday Night Live* skit that grossed $57 million at the box office in its first four weeks. That reception vindicates Tartikoff's strategy of "youthifying" movies to attract the under-25 set. He has also signed former NBC star Eddie Murphy to a new four-picture deal.

On the television front, Tartikoff is inviting the networks' affiliated stations to buy two new hourlong series—*The Untouchables* and *Deep Space Nine,* a new *Star Trek* saga—directly from Paramount for their prime-time schedules. This could be more bad news for the network system that produced Tartikoff.

–KATHRYN HARRIS

Starving the young

NEW ISSUES are booming, but veteran venture capitalist Alan Patricof, 57, isn't jumping with joy.

"You're not seeing any early-stage deals going public in this new issues market," says Patricof, who manages $1.4 billion in venture money under the names Patricof & Co. Ventures, Inc. and Apax Partners. "What you're seeing is the inventory of the last seven or eight years. Venture investors have had to finance every stage of these companies' growth. Our returns are hurt by time and amount of additional capital we have to put in."

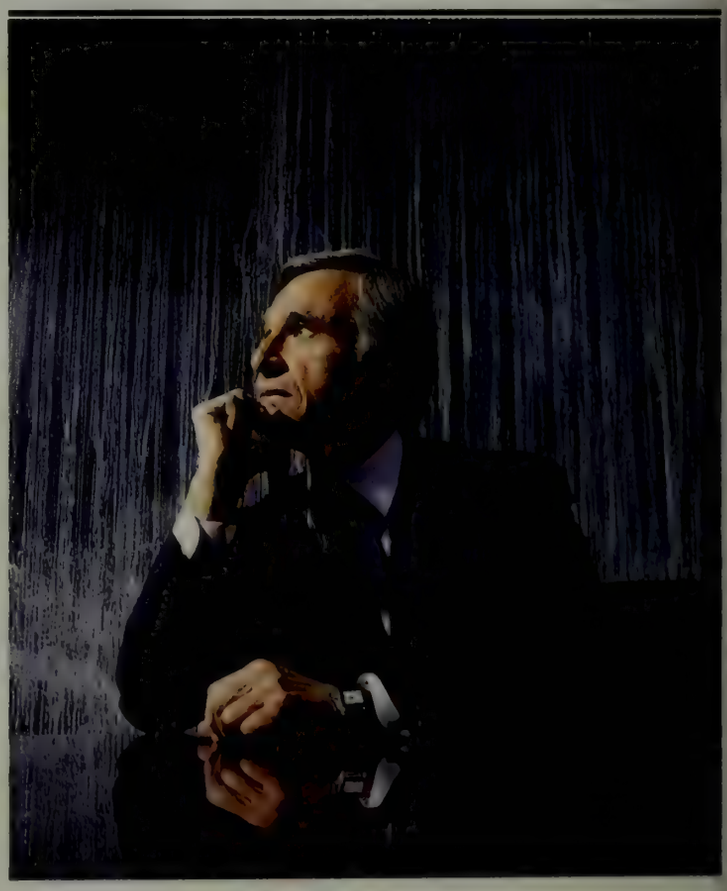
Consider Creative BioMolecules, Inc., a synthetic protein startup he put $250,000 into in 1982. Since then he has contributed more than $9 million in seven rounds of financing. In April the company should finally go public, and Patricof should see about a threefold paper gain on his investment—not much, he says, considering the risk and time involved.

"We never dreamed in the beginning that we'd be in there for ten years," he says. Today only 20% of Patricof's current U.S. venture capital fund is invested in early-stage companies, compared with more than half of a fund raised in 1984. The balance is used to keep the startups going and to invest in later-stage companies.

Patricof, who raised $400 million last year for a fund that will invest in Europe, says the U.S. tax code discourages investors from backing startups at home. To reinvigorate U.S. venture capitalism, Patricof hopes capital gains taxes will be cut. But taxes on gains from startup investments should be cut even more, he says, and investors should be able to roll over any gains tax free if they invest in new companies, as homeowners can do with houses. He also hopes Washington will let young companies sell their net operating losses. "In effect," he says, "that's capital they've got no benefit from."

Alan Levenson/Onyx

LEFT: Paramount Pictures' Brandon Tartikoff **"It would be a tragedy if I delegated the fun to other people."**



RIGHT: Venture capitalist Alan Patricof **If houses can be rolled over tax free, why not startup investments?**

RIGHT:
Retailers Gene and Joe Silverberg
The Cardin executive liked their guile.

David Carter

BELOW:
Alfredo Cesar, president of Nicaragua's national assembly
The Sandinistas are still a problem.

Lift-off delayed

"NOT SO GOOD," replies Alfredo Cesar, president of Nicaragua's national assembly, when asked how things are going in his country. Two years after voters sent the Marxist Sandinistas packing, Violeta Chamorro's reconstruction government has tamed inflation (it's now hovering around 20% annually, down from 300% monthly two years ago), renegotiated $5 billion of the country's $11 billion foreign debt tab, and opened the country to imports. The economy has stopped shrinking. But investment, by foreigners or Nicaraguans, has not picked up.

"Growth last year was zero and our population is growing at 3%," says Cesar, "so our per capita income is still falling."

Cesar, 40, earned an engineering degree at the University of Texas and a master's in finance at Stanford. Like many educated Nicaraguans fighting to break free of Central America's oligarchic past, Cesar was briefly a member of the Sandinistas in the late Seventies. Soon convinced that socialism was a wave of the past, he quit the Sandinistas and joined the Contras in 1980. He returned to Nicaragua from exile in Costa Rica and Miami in 1989.

Why does the economy stagnate? Two reasons, says Cesar: no laws to safeguard private property, and no police system to safeguard the laws. Cesar shepherded property rights legislation through Nicaragua's assembly last year, but Mrs. Chamorro vetoed the law. Why? "The Sandinistas threatened to set the country on fire," replies Cesar, who is expected to run for the presidency in 1996.

Cesar says he will have better luck this year. Chamorro's veto increased public opinion favoring the legislation, and infighting among the Sandinistas has weakened their position. Cesar believes the Sandinista-led police forces will be forced by popular opinion to enforce the new laws.

Nicaraguans have another worry: George Bush has let slide the U.S.-Mexico free trade agreement, which would open the rich U.S. market to all Central American countries. Cesar hopes the agreement will get high priority after the election. "Unless we have access to the U.S. market, why should anybody want to invest in Nicaragua?" he asks. "Without access and investment, the Central American economies are going to look like Africa." –LAWRENCE MINARD

Hustlers

BIGSBY & KRUTHERS sounds like a tony British haberdashery. But Chicago's largest menswear retailer fashioned its name from two characters in the comic strip *Blondie*. Its founders, the sons of Jewish refugees from Europe, are two brothers who got their start hawking shoes and suits on Maxwell Street, Chicago's onetime garment district.

Joe Silverberg, 45, and his brother Gene, 38, opened their first Bigsby & Kruthers store in 1970 with $9,000 in savings. They did a nice business selling blue jeans and T shirts until a Gap store opened down the block in 1973. "We were screwed," Gene says.

They decided they had to sell nicer clothes and tried to get the Pierre Cardin line. But the then hot fashion designer wouldn't touch the unknowns. So Gene paid retail for a dozen Cardin suits at Marshall Field's and put them in the window, instructing employees not to sell them. Impressed with their guile, a visiting Cardin executive decided to sell to the brothers after all. Good instinct: Last year Bigsby's six stores grossed $24 million.

Two years ago the brothers started the Knot Shop, now a $4 million (sales) chain of tie stores focusing on designer neckware from Hugo Boss, Joseph Abboud, Fumagalli and others, priced from $20 to $95. By Father's Day they'll have 20 stores in malls from Boston to Los Angeles. With $4 million in backing from prominent Bigsby customers like William Farley, the Silverbergs plan to expand to 85 Knot Shops by 1995.

What's next? The Silverbergs are agents on a licensing deal with customer Michael Jordan, who is using his name to sell a full line of men's clothing and a cologne. Says Gene: "It'll smell like a three pointer." Whatever that smells like.

–CHRISTOPHER PALMERI

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FORBES MAGAZINE'S Laucala ISLAND

THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

These are fat times on Wall Street. Initial public offerings are coming out at a near record pace, and trading activity is increasing. Average daily trading volume on the New York Stock Exchange, 179 million shares last year, shot up to 233 million during the first two months of the year.

Perrin Long, who follows the securities industry for First of Michigan Corp. in Detroit, says that owning brokerage stocks beats owning stock indexes like the S&P 500. "Brokerage stocks are, in effect, a proxy for the market," he says. "They do very well in a high-volume, low-interest-rate environment like today's."

Long quickly adds that brokerage stocks are quite cyclical. They do better than the market in good times but worse than other stocks when the market sinks. But if he's right, the best bet may be a portfolio mixing brokerage stocks (for upside gains) and cash (for when the market sells off).

Special focus

Who would pay a premium over asset value to get into a closed-end fund? It's a question discussed on page 144. Some of these funds have perceived scarcity value, since it's hard to invest in Turkey or Singapore. Bergstrom Capital's superb performance record (FORBES, *Jan. 6*) may explain its premium.

Expensive closed-end funds

Fund	Premium
Turkish Investment Fund	26.8%
Indonesia Fund	26.6
Taiwan Fund	26.3
Bergstrom Capital	21.4
Z-Seven	21.2
Van Kampen Merritt Intl	18.3
Asia Pacific	16.9
ROC Taiwan Fund	16.7
Korea Fund	16.0
Templeton Emerging Markets	14.9

Source: Morningstar

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	-1.6%	12.1%	-3.4%
Sharpe/Barra Growth index[1]	-1.4	14.4	-5.9
Sharpe/Barra Value index[2]	-1.9	8.1	-2.4
Dow Jones industrials	-1.2	9.4	-1.5
S&P 500	-1.8	8.1	-3.4
NYSE	-1.6	9.5	-3.0
Nasdaq	-1.6	30.7	-3.6
Amex	-0.6	15.5	-2.1
EAFE[3]	-1.4	-11.1	-24.9
CRB index[4,5]	-0.4	-4.7	-22.7
Gold[5]	-0.6	-4.4	-30.1
Yen[5]	2.6	-2.8	-19.6
Oil[5]	0.0	-4.4	-54.9

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Grace Energy	17 1/8	43%	$0.75	American Dental Laser	6 5/8	-43%	$0.80
DWG	8 7/8	34	NA	Esterline Technologies	11	-33	1.50
Alpine Group	13 5/8	33	NA	Zeos Intl	15 3/4	-28	1.57
Herbalife Intl	8 1/2	31	NA	Relix	12 3/4	-25	0.53
Garner	33 1/2	29	1.41	Komag	15	-25	1.44

The best and worst performing industry factors[8]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Media	3.1%	8.4%	Photographic, optical	-7.9%	-11.8%
Beverages	1.2	5.1	Motor vehicles	-6.5	20.8
Drugs	1.2	-7.0	Oil refining, distribution	-6.5	-4.8
Tobacco	0.9	0.0	Coal & uranium	-5.6	-18.4
Real Estate	0.9	3.2	Electronics	-4.5	5.1

Note: Data for period ending 3/5/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

BY ERIC S. HARDY

Yield curve

30-year rate minus 1-year rate

Yield vs. inflation

Spread over Treasurys		Total returns		
Security	Basis points[1]	Security	1 year[6]	3 years[6,7]
AA corporates	75	AAA corporates	13.9%	12.4%
AAA industrials	60	Ginnie Maes	12.9	13.8
Ginnie Maes	81	Junk corporates[4]	37.3	12.0
Junk corporates[4]	538	Municipals[5]	10.0	9.8
Municipals[5]	–184	Treasury bonds	12.1	12.1

The unusually steep yield curve presents a tempting speculation to bond bulls. The 30-year Treasury now yields 8% to maturity. If the yield declines by 1 percentage point over the next year, total return to today's buyers would be 22%.

What's the case for declining long-term interest rates? One argument is that it is simply abnormal for the long bond to yield so much more than the shortest-term Treasury paper. Investors are being rewarded with 4 percentage points of additional yield to purchase a 30-year bond instead of a 1-year bill. The last time the gap was anywhere near this wide was back in mid-1985, when the spread was only 3 percentage points.

Another reason to buy long Treasurys is that the powers in Washington are very unhappy about high long-term interest rates, which have an impact on mortgages and other politically sensitive rates. The Administration can't do much about long-term rates directly, but it can try to influence them. It might, for example, direct the Treasury to issue more short-term bills and fewer long bonds. Or the Federal Reserve banks could buy up long Treasurys. Either way, the supply-demand balance can be altered in such a way that prices might rise and yields fall.

Another argument offered by the bulls is that inflation is down to 2.6%. If it stays convincingly low, then investors will be more willing to commit their money for 30 years.

Interest rates could head upward instead, of course, sending prices plunging. First Boston Chief Economist Neal Soss notes that long bond yields ranged between 7.5% and 8.5% in 1991, when there was a war and a transition from economic growth to recession. Citing the election, pending tax changes and mixed perceptions of the health of the economy, Soss warns that rates could be even more volatile this year.

Buyers, in Soss' view, must be prepared to withstand substantial swings in the value of their bonds. He expects the prevailing 8% yield to be about the middle of this year's range.

Note: Except where footnoted, all information provided by Barra, Inc., Berkeley, Calif. [1]A basis point is equal to one-hundredth of a percentage point. [2]Yield on ten-year Treasurys. [3]The trailing 12-month increase in the Consumer Price Index, through 1/31/92. [4]Source: First Boston. [5]Source: Lehman Brothers. [6]Data through 2/28/92. [7]Annualized

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The stock market is so overheated that even mediocre funds are trading at a premium. Investors beware.

Sell signal

By Richard Phalon

THE RUNAWAY stock market has narrowed the discounts on closed-end equity funds to the point where most of them are no longer bargains. In fact, they are downright dangerous. If the market collapses, the closed-end funds will almost certainly shrivel to serious discounts to their net asset values. That will leave today's buyer much worse off than if he had bought an open-end fund.

This phenomenon is of fairly recent standing *(see table)*. Last fall such warhorses as the Salomon Brothers Fund, Tri-Continental and Petroleum & Resources Corp. were selling at 8% to 15% discounts to the value of their underlying assets. No longer. The discounts have shrunk to where they barely cover brokerage commissions, let alone provide their traditional upside kicker—namely, the possibility of a narrowing discount during a bull market.

The rush into these U.S. equity-oriented closed-ends has been more a lemming-like surge than a search for performance. The $1.9 billion Tri-Continental fund, for example, traded at a discount of 7.6% last fall. Now, despite its so-so results (a B in up markets in the FORBES grading system, a C in down), buyers have bid it up on the New York Stock Exchange to $27, only 3.2% less than its $28.40 net assets per share.

Then there is the $314 million Petroleum & Resources Corp., one of the few survivors of the rash of closed-ends brought to market before the Great Crash of 1929. This energy sector fund has done very poorly. Over the past ten years its portfolio has shown a total return of 9% a year, compared with 17% for Standard & Poor's energy index. FORBES rating: D in both up and down markets. Incredibly, Petroleum & Resources even climbed to a premium of 0.2% on Feb. 14, before settling back to a recent discount of 2.5%.

Given the second-rate performance, why is there so much strength in the stock? Unlike many other closed-ends, Petroleum has not been buying in shares to close the gap between value and market prices, says Douglas Ober, the 45-year-old research analyst who became chief executive of Petroleum two years ago. (He also runs the $662 million Adams Express Co., another old-line closed-end whose directors also serve as Petroleum & Resources Corp.'s directors.) Ober's explanation: "We're benefiting from the trend you see in most closed-end funds."

He's certainly right about the trend. Even funds with very undistinguished performance records, such as ASA Ltd., are trading at premiums to their asset values.

Are bargain hunters scenting in Petroleum a way of buying into badly mauled energy stocks? That might have made sense two years ago, when the fund's average discount was 13%, but it scarcely makes sense now. If you want to own Petroleum's portfolio, weighted to international oils like Royal Dutch, Mobil, Exxon and Chevron, you are better off buying the stocks directly, thus avoiding management costs and the danger of the discount's widening again. The only way to justify a purchase of Petroleum & Resources is to speculate that the fund will climb to a fat premium, which is highly unlikely given how easy it would be for arbitragers to pounce on the discrepancy by shorting the fund and buying the stocks that it owns.

And there's a good reason for energy bulls not to jump into this fund: It's not really a pure energy sector fund. Indeed, it might make sense for the directors to rename it the Petroleum & Retailing Corp. Ober has been diversifying into distinctly non-petroleum issues like Dillard Department Stores, General Electric and Waste Management—a strategy that over the last year has cut Petroleum's dependence on energy producers from 77% to 70% of assets.

Ober argues that the fund's strategy is in sync with the wishes of Petroleum shareholders. "Most of them are over 65, want their capital preserved with low risk and want a stream of dividends."

If that's what you want, buy an open-end, no-load balanced fund. Buy a closed-end fund only if it's either at a wide discount to net assets or at a modest discount but likely to go open-end soon. Neither is true of Petroleum & Resources.

Where's the value?

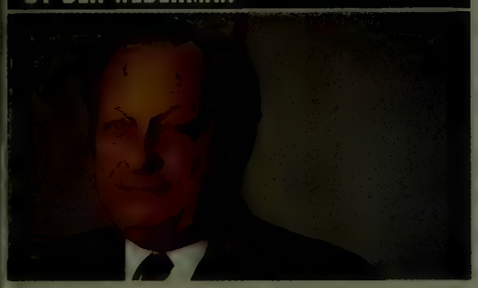
Fund	Assets ($mil)	Discount/premium 9/27/91	Discount/premium 3/6/92
Adams Express	$662	–6.3%	–3.6%
Blue Chip Value Fund	78	–5.8	–1.4
General American Investors	587	–11.2	–0.6
Liberty All-Star Equity	601	–2.6	3.1
Petroleum & Resources	314	–9.6	–2.5
Royce Value Trust	173	–10.5	–3.0
Salomon Brothers Fund	1,115	–14.6	–8.0
Tri-Continental	1,834	–7.6	–3.2

In a bull market, it gets harder and harder to find a closed-end fund trading at a comfortable discount to its portfolio value. Witness these disappearing bargains.

If you want yield, junk bonds still look interesting—more as an alternative to stocks than as an alternative to bonds.

Checking out the junk pile

BY BEN WEBERMAN



Ben Weberman is a columnist for FORBES magazine.

DISAPPOINTED in the 4% or so returns on risk-free money market instruments, many investors are once more being lured to the junk bond market.

It's not hard to see why. Last year, counting sharp market gains and 12% to 13.5% coupon interest rates, junk mutual funds as a group yielded a 37% total return—beating the stock market—according to Morningstar, Inc., which tracks mutual funds. This year coupon yields are hovering around 10% to 12% and will probably stay in that range over the next year or so, predicts Timothy Peterson, vice president at Harvard Management Co. That's around 300 basis points better than Treasurys and 200 basis points better than prime corporates.

However, with junk bonds you not only have the risk of volatile interest rates, but you also have the risk involved in the individual credits, which could go bad. Understand: You're paying for that added yield in added risk.

If you feel comfortable with the added risk, don't buy just a single junk issue. Build a portfolio of at least five diverse offerings. Better yet, buy a junk bond mutual fund with 100 or more issues to spread the risk. Some of these funds carry front-end loads, but the returns can be worth it, especially if you stay with them for at least three years and earn back the commission. Liberty High Yield or Kemper High Yield with 4.5% loads have performed within the top 5% of all junk funds over the past three-month, six-month and one-year periods. Morningstar shows that Liberty had an average annual total return of 10.2% in the past five years, and Kemper High Yield turned in an annual average return of 9.7%. In the past year, when junk bonds had a phenomenal rise, Liberty gained 66% and Kemper was up 50%.

If you can't bear paying load charges or don't expect to stay invested long enough to justify one, Vanguard's Fixed Income Securities Fund-High Yield Corporate Portfolio has no sales load and a low annual operating expense. However, it ranks only in the middle of its peer group for a ten-year total return. Vanguard's total return was 7.3% over the five-year period. Vanguard's one-year return last year was 29%.

If you insist on buying individual issues, Harvard Management's Peterson recommends issues with good interest coverage and strong asset protection. Such issues, in fact, are candidates for improving to investment grade and, thus, are generating capital appreciation. These issues don't pay the superhigh yields expected of speculative securities, but they're still very attractive. Viacom 10¼s of 2001 now trade at $105.50 and yield 9.4%. They are not callable for ten years and have at least $3 billion of good equity underlying the debt. Safeway 10s of 2001, yielding 9.4% and trading at $103.75, also have a large equity cushion. They are noncall for life. Turner Broadcasting 12s of 2001 yield 9.4% and have strong cash flow, as well as substantial underlying equity.

For higher yield, Peterson suggests a few speculative issues, such as new Federated Department Stores 10s of 2000, which trade at $95 and yield 11%. These, he thinks, will be paid off if the company can come to market with an equity offering in 12 to 18 months. Dr Pepper/Seven-Up Cos. zero coupons due 1998 pay 11.30% and have the potential for benefiting from any corporate IPO. Rowan Industries' 11⅞s of 2001 trading at $102.50 have only $200 million of debt with no payments other than interest called for over the next ten years. As the company possesses a lot of financial flexibility to weather any storm and is set to benefit from an expansion of the oil business as the economy speeds up, the yield is high for its quality.

Ralph Stellmacher, vice president at Oppenheimer Management Corp., who runs the Oppenheimer High Yield Bond Fund, goes for high-return, high-risk issues. As an example, Chrysler's Auburn Hills Trust 16⅞s of 2020 trade at 104, to yield 16.25%. Stellmacher likes this issue because it's guaranteed by Chrysler Corp., which has $3 billion in cash and a $1 billion line of credit. Prospects for Auburn Hills, of course, depend on the viability of Chrysler.

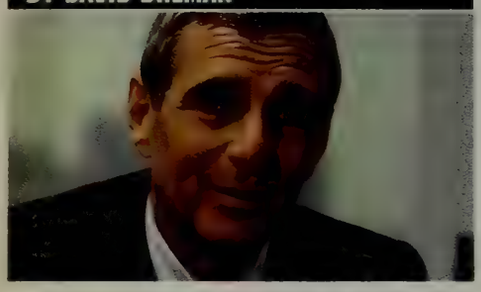
Stellmacher is also willing to speculate on Businessland 5½s of 2007, which yield 11% and have an option to convert to stock—though the conversion price is so far above the market that the issue is known as a "busted convertible." The recent acquisition of Businessland by JWP Inc. carries some assurance of continued operations and improvement in credit quality from BB to BBB. If that happens, the debt trading price would go from the current 60 cents to 68 cents, Stellmacher says.

Junk bonds just aren't the bargains they were a couple of years ago when FORBES recommended them *(Feb. 19, Nov. 26, 1990)*. Still, if you feel that you need yield, junk bond funds are probably no more risky than the stock market and the return is more certain. ■

New research throws heavy doubt on a major efficient market model. Thus, the solid, old value approach to investing looks better than ever.

Bye-bye to Beta

BY DAVID DREMAN



David Dreman is chairman of Dreman Value Management, L.P., Investment Counsel, New York, and author of *The New Contrarian Investment Strategy.*

THE MAJOR OFFSPRING of the Efficient Market Hypothesis (EMH), the Capital Asset Pricing Model (CAPM), claims that the only way to beat the market is to take higher risk. Thus, if someone has beaten the market by good stock picking, it's not because he or she is smart but because he or she gambled by buying more volatile stocks and won. I have always thought this academic wisdom was way off base, and now there's new evidence to prove I was right.

Under CAPM, stocks were assigned a Beta rating—as a measure of their historical volatility. A stock with a higher Beta was a riskier stock. But a soon to be released paper by Eugene Fama, one of the dominant figures behind EMH, and Kenneth French, both professors at the University of Chicago, measures the performance of thousands of stocks over 50 years. The study concludes that there is no link between risk, as the academics define it, and long-term performance.

According to Fama, "Beta as the sole variable in explaining returns on stocks is dead."

This is not just ivory tower stuff. Beta and other forms of risk measurement decide how hundreds of billions of dollars are invested by pension funds and other institutional investors. High Betas are no-nos. But the money manager who delivers satisfactory returns with a low-Beta portfolio is lionized.

It turns out it could all come out of the Wizard of Oz.

But why is that a surprise? Beta gives the appearance of being a highly sophisticated mathematical model but is constructed while looking into a rearview mirror. It takes a number of inputs that seemed to correlate with volatility in the past, then states they will work again in the future. This is bad science. Because some variables moved in step with volatility for a number of years does not mean that they initiated it.

A classic example of such a chance correlation is the NFL-stock market relationship. When a team from the original NFL has won the Super Bowl, the market has gone up the next year a large percentage of the time. But no serious investor believes the Super Bowl victory was the cause of the rising market.

I predicted years back that Betas, built as they were on spurious correlations with past inputs, were unlikely to work in the future. And this is precisely what has happened. Beta after Beta, each of which was supposed to predict future risk precisely, has failed.

If not Beta, what? If risk cannot be measured by volatility, how should it be determined? After 30 years the course of risk analysis has gone full circle. Fama and French indicate low price-to-book—a pure value criterion—is one measure that produces above-average returns over time.

Here are a number of the value criteria I use, some of which date from Graham and Dodd in the Thirties, or earlier. They are:

First, adequate diversification, not only by company but by industry, as well as by sector.

Second, reasonable debt-to-capital structure—look no further than the LBO excesses of the 1980s to see the merits of this one.

Finally, higher-than-market earnings and dividends growth over time.

Here are a number of issues that meet these value/risk criteria and appear interesting today:

IMC Fertilizer (59) is a large miner of potash and phosphates that it upgrades and markets as fertilizers. Earnings should increase close to 20% in the current fiscal year (ending June 30), with further gains likely in the next several years. The stock trades at a price/earnings multiple of 14 and yields 1.8%.

International Multifoods (26) is a leading processor and distributor of food products. Income should be up about 10% in the fiscal year just ended (Feb. 29) and continue to increase at a 10%-plus rate. The stock has a P/E of 13, yielding 3.1%.

Monsanto (67) has not been as affected by chemical industry cyclicality because of major diversification into agricultural chemicals, NutraSweet, pharmaceuticals and other products. Earnings hit a record $4.87 a share last year and should show a 20% increase in 1992. MTC trades at a P/E of 13, yielding 3.1%.

Universal Foods (31) is a large manufacturer and marketer of food products. Income should be up approximately 10% for the current fiscal year (ending Sept. 30), with accelerating growth as the economy improves. The stock trades at a P/E of 14 and yields 2.6%.

Upjohn (40), a major drug producer, continues to be under a cloud because of negative publicity on Halcion and fears new product development is slowing. At its current price, UPJ more than discounts the negatives. The stock trades at a P/E of 13 and yields 3.4%. ■

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There's a surprising degree of unanimity among top stock market timing letters that the bull market will end sometime later this year.

Yes, Virginia, there is such a thing as a bear market

BY MARK HULBERT

Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

WHERE'S THE TOP in this seemingly inexhaustible bull market? It may not be far off if the best of the market letter writers are correct. Almost all the market timing letter editors who have beaten a buy-and-hold since 1980 are forecasting serious intermediate or long-term trouble for stocks.

The top-performing letter among those the *Hulbert Financial Digest* has tracked since 1980 is *The Chartist*, edited by Dan Sullivan. His model portfolio currently is just 58% invested in stocks, down from being fully invested a year ago. Sullivan is pessimistic about the long term because, he says, the stock market's impressive gains over the past decade are unsustainable. Sullivan's study of the market's cycles convinces him that the market invariably regresses to its long-term average annualized gain of about 10% a year. Given the market's compound annual return of 17% since 1982, Sullivan concludes that stocks over the next few years "will have to produce substantial negative returns in order to return to the 10% norm."

This doesn't mean the stock market can't keep going up over the short term, Sullivan is quick to point out. Indeed, for now he believes that the market's near-term trend is up. But any further gains from here will mean that the market has that much further to fall to come back into line with historical norms.

The Institute for Econometric Research (headed by Norman Fosback and Glen Parker, and which publishes *Market Logic*) is another one of the advisers whose timing has beaten the market since 1980. Fosback and Parker are nervous. They point out that the market's overvaluation is "drastic," with stocks trading at some of their lowest yields and highest P/Es in history. Even if the market fell back to just historically average valuations, the decline would be severe—and, of course, the market easily could fall back further than just to its long-term average. Accordingly, Fosback and Parker have built up a 45% cash position—the most they have had since 1981. They plan to use any further short-term strength to build up even more cash.

I monitor two other letters besides *Market Logic* that base their forecasts on econometric models, and though I have less performance data for them than I have for *Market Logic*, it is noteworthy that both also are cautious to outright bearish. The first is *The Big Picture* (formerly *Indicator Digest*), edited by Stephen Leeb. His econometric model is predicting a loss of 19% for blue-chip stocks over the coming year, and his model portfolio is now just 44% invested.

The second econometric newsletter is *Hussman Econometrics*, edited by John Hussman. Hussman predicts that stocks will top out within the next few months, in anticipation of which he has cut his portfolio exposure back to half what it was last year. Furthermore, he says he expects to be completely out of the market, if not short, by later this year.

Another timer who has beaten the market since 1980 is Bob Nurock, of *Bob Nurock's Advisory*. Nurock correctly turned bullish on the market's short term in December, just in time to catch stocks' strong year-end rally. And at the time *(see my Jan. 20 column)* he hinted that his Technical Market Index (a longer-term model, formerly known as *Wall Street Week*'s "Elves") might also generate one of its rare buy signals. But today the picture is quite different. Now, according to Nurock, the strong rally has caused the market's intermediate and long-term prospects to deteriorate—so much so that his TMI could generate a sell signal in a few weeks' time. Nurock's model portfolio is 45% long in stocks, 55% in cash.

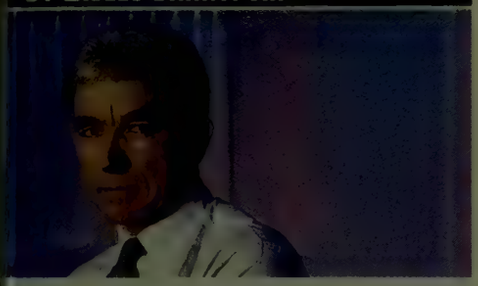
How bad a bear market do we have in store? On this subject the top performers don't see eye to eye. On the one hand, some, such as Sullivan, envision a number of years of negative returns. The Institute for Econometric Research, on the other hand, thinks that it's more likely we will just enter a sustained period of quite modest returns—during which, while stocks won't necessarily lose a lot of money, they won't do as well as bonds or even money market funds.

But this lack of agreement about the bear market's severity is less significant than you might think. It's far more important for you to know that some perceptive observers think the party is about over. They might be wrong this time, but their records are pretty darned good. ■

There are fads and there are fundamentals. Both favor bank stocks right now.

Catching the beat

BY LASZLO BIRINYI JR.



Laszlo Birinyi Jr. is president of Birinyi Associates, New York, a financial consulting firm.

UNLIKE Henry David Thoreau, who marched to a different drummer, most professional investors spend a great deal of their energy trying to catch the beat of the market and getting in step with it. Right now the drummer seems to be beating out a banking tune.

Bank stocks have quietly been among the leaders of the 1992 market. There are fundamental reasons for this. Their costs of borrowing continue to decline, but as bank cardholders can easily note every 30 days, their costs of lending have not dropped proportionately. But even where the fundamentals haven't changed for the better, bank stock prices have. Citicorp, which just several months ago was trading in single digits, has since doubled, even though economic circumstances in New York City have not improved, the bank has not been restructured and there have been no dramatic corporate developments.

Analysts continue mixed on the outlook for Citibank, with 1992 estimates ranging from nothing to one intrepid soul's $2.60. The greatest cluster of estimates is around $1, which translates into a 17 price/earnings ratio. While this is not Wal-Mart country, it is no candidate for a Graham and Dodd value portfolio either.

By and large, however, the fundamentals look favorable for banks. The stories regarding real estate losses, problems with the S&Ls and their hesitancy to lend, have probably obscured the banks' increasingly positive fundamentals. The major banks, whose five-year earnings history shows a decline of 45%, with the change in 1991 being down 10% from 1990, are expected to rebound. Obviously, given the record, the gain is likely to be dramatic. The 30 Wall Street analysts who cover the group expect a 28% gain in earnings for the year and an 8.8% gain over the next five years.

Both would exceed expectations for the market. The S&P is currently anticipated to increase earnings 24.7% this year and 7.9% over the next five years.

Regional banks are expected to show even greater improvement, with a 66% gain in this year's earnings and 9.6% over the next five years. The difference is manifest in P/Es, as the majors are trading at a somewhat mundane 12.8 times 1992 earnings, with the regionals' 20.3 P/E just below that of the S&P 500's 21.5.

In the Jan. 6 issue of FORBES we recommended Wells Fargo but not Citibank. Wells Fargo apparently is not going to choke on its real estate exposure, as people thought. Wells Fargo is up about 35% but Citicorp much more. That Citibank was so strong, even lacking improved fundamentals, now convinces me more that the market is marching to a banking beat. Public psychology and fashion now favor the banks. Chase, First Chicago and BankAmerica are other large stocks that have done well in the first two months of this year.

But bank stocks are in abundance, and even having segregated the group, the investor must still pick stocks. Our approach of analyzing trading patterns discerns significant long-term buying in the following:

NBD *Bancorp* (30), a Detroit bank, is up only slightly this year, but strong buying interest exists.

Bank of Boston (20) recently filed to sell more stock, but that did not deter the interest in these shares. Although the stock is up from $11, investor interest continues strong.

Barnett Banks (34) has a higher P/E and a lower yield than does NBD or Bank of Boston. Here, too, investor interest is strong and buyers need not fear profit taking, as the stock is basically unchanged.

Additionally, a large number of regional stocks show signs of accumulation. Our approach is to focus on what is going on, not why. These stocks include:

Corestates Financial (44), the old Philadelphia National Bank, has a low multiple (relative to other banks), and its yield is higher than other names previously mentioned.

First American (20) of Tennessee is a growth bank, if ever there was one. It has a high multiple, low yield, but substantial buy interest exists.

Boatmen's Bancshares (43) is down from its 1992 high of $40, but a decent yield and low multiple may account for the fact that large traders bought in the recent decline. And aggressive buying of a falling stock is as reliable a positive indicator as an investor can hope for.

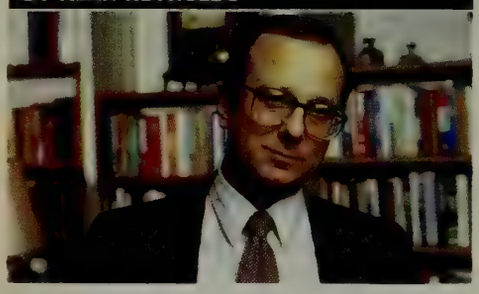
But investors should be aware that the attitude is not the same toward all banks and should be especially leery of two prominent and celebrated New York banks, *Bankers Trust* (58) and *J.P. Morgan Bankers* (59). Both are down sharply from their 1992 highs, and, perhaps more disconcerting, there has been net selling in both.

Given that each of these institutions has expanded its nontraditional activities over the last several years (going into areas more usually associated with Wall Street firms), perhaps the market's message is that one should indeed "a lender be."

Our politicians run around shouting that the economic sky is falling. Did they think the transition to disarmament they so avidly advocated would be entirely painless?

The sky is not falling

BY ALAN REYNOLDS



Alan Reynolds is the director of economic research for the Hudson Institute of Indianapolis, Ind.

THERE HAS BEEN a recession after every major war in U.S. history: in the 1780s, 1867, 1920-21, 1949, 1953-54 and including the Vietnam cutbacks of 1970-71. Why should the end of the Cold War be any different?

So why all the breast-beating about the current economic weakness? In the final quarter of last year real defense spending fell at a 15.4% rate. That's a pretty severe hit for many industries and many parts of the country. If defense and other government purchases are excluded, private real GDP rose at a 3.1% rate in the third quarter and 2.3% in the fourth. Since last April the only recession has been in government—mainly defense.

Is this such a huge price to pay for the prospects of peace? Is it any reason to think the economy is going to hell?

Defense cutbacks cloud many statistics. The January rise in durable goods orders, for example, would have been twice as large had it not been for a big drop in defense orders. Many communities have become highly dependent on defense industries, so defense cutbacks depress local construction and retailing, as well as industries that supply defense contractors with metals, machines, vehicles and tools.

In the past couple of years, nearly all the states with above-average unemployment and below-average growth have been those with major defense industries. In New England personal income grew by only 0.7% between the third quarters of 1990 and 1991, compared with 2.8% for the nation.

Military production uses a lot of metal, and armies use a lot of fuel, so these prices tend to drop with declines in military demand. In the past, such as in 1949 and 1952, postwar disarmaments were usually accompanied by falling prices, at least of industrial commodities. The most extreme example was 1921, when industrial commodity prices collapsed by 54%.

Prices did not fall in 1970, after most Vietnam spending ended, but defense spending did not actually decline that time because of the Cold War. But in 1992 defense spending is declining—and sharply—and the usual effect in depressing commodity prices is already apparent, though this price squeeze has been compounded by tight money in many countries. For example, the price of aluminum has been cut in half in two years.

Should we worry about this deflation getting out of hand? No. So long as we don't precipitate another trade war, as in 1921 or 1929, such price declines are likely to remain moderate, as commercial uses of commodities gradually begin to substitute for military demand.

In the four most recent periods of disarmament, unemployment rates rose by 2.4 to 10.3 percentage points. So far, the overall employment effects in 1990-92 have been relatively mild, even though there have been significant reductions in defense jobs, both civilian and military. Armed forces stationed in the U.S., for example, were reduced by 96,000 between the fourth quarters of 1989 and 1991. There is much more to come. The 1993 budget plans to cut uniformed personnel by 17% from 1991 to 1993, adding over 300,000 to the number of civilian job seekers.

Although there are always difficult adjustment problems associated with switching from military to civilian production, this certainly does not mean the country should keep military spending high as a public works program. Consumers undoubtedly will benefit if companies that make military uniforms can switch to making civilian clothing, if aircraft and shipbuilding companies switch to domestic transportation and exports, and if soldiers switch to producing useful goods and services.

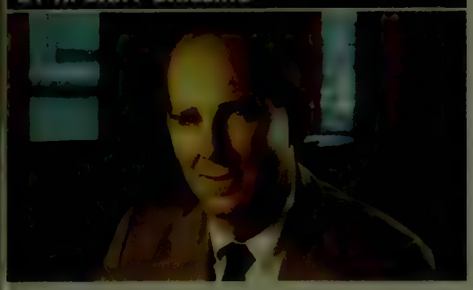
There will be a transitional cost—and we are currently paying it. Switching buildings, machinery and skills from military to civilian uses is not accomplished overnight. Some people will have to leave communities dependent on defense industries. Such painful adjustments are the unavoidable price of relocating capital and labor toward civilian uses.

Too bad our politicians don't understand all this. Instead, the very ones who are most eager to dismantle the military run around blaming the sluggish economy on Japan, the President, millionaires or anything else they can imagine. The country is not falling apart. This transitional period of economic difficulty is simply a price that must be paid for the peace dividend. It is a price that always has been worth paying in the past. ■

Looking for bargains in vacation condos? Rent one instead and put the down payment into Treasury bonds.

A very expensive vacation

BY A. GARY SHILLING



A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and investment advisers. His firm publishes *Insight*, a monthly newsletter covering the business outlook and investment strategy.

DO YOU HAVE the itch to buy a vacation condo now that prices look cheap? Are you attracted by those glossy photos in the advertisements and in the shelter magazines? Are you afraid that if you don't buy at least one now prices will jump as the baby boom generation depletes the supply?

My advice: Forget it.

To show you how much you don't want to own a vacation condo, consider this. A two-bedroom, oceanfront beauty in Vero Beach, Fla. can currently be had for $225,000. If that sounds good, follow me through some simple arithmetic.

Say you put down 20%, or $45,000, and finance $180,000 with a 9% mortgage, for an annual net cost of $16,200. Maintenance: $3,600 per year. Property taxes: $2,500. Now we come to opportunity cost. If you don't buy the place, you will have that $45,000 to invest. In long-term Treasurys at current yields, it will earn $2,400 a year in aftertax income for a high-bracket individual. So add that forgone income to the costs of carrying your condo.

Okay, that nice, breezy condo in Vero Beach costs you $24,700 a year—a tad over $2,000 a month.

But would you really use the place 12 months a year? Almost certainly not. Essentially, the season there is after Christmas through March. If you are a fairly typical owner, you might occupy the place one of those months and rent it the other two at $2,500 per month. This knocks $5,000 off your costs, bringing your total annual outlay to $19,700 before tax deductions.

Since you are occupying the condo more than 14 days, or 10% of the time it is rented, you cannot deduct expenses beyond the amount of rental income, or $5,000. Even if you occupy it less, the passive-loss rules won't let you deduct more until you sell the place, unless your annual income is less than $150,000 or you have offsetting passive income.

Furthermore, your personal deduction of mortgage interest and property taxes is limited to the percentage of time you don't rent your condo. And you can't even deduct the mortgage interest if you already own another vacation house with a big mortgage. You may also be limited by the alternative minimum tax. Under the best of circumstances, your aftertax cost is $14,500 if you are in the upper tax bracket. (Thanks to Neil Becourtney of Trien, Rosenberg, CPAs in Morristown, N.J., for guiding me through the tax thicket.)

Big deal. In essence you are paying $14,500 to carry that condo that you will occupy a month. Or you could rent one for $2,500 a month, and let the owner worry about floods, hurricanes and all the other things that can happen to property.

Of course, the real estate agent will remind you about the prospective appreciation. My view here is: Forget past experience. In the bleak realty market I see ahead, you will be lucky if your condo's price rises at the overall CPI rate. In my view, inflation is down and going down further—to maybe 2% per year or less.

But, okay, let's assume a 4% inflation rate. Four percent appreciation adds $9,000 to your investment's value every year, so your one-month annual stay in Vero Beach costs you $5,500, net. (We will be generous to the real estate agent here and just forget about the tax you eventually have to pay on capital gains.)

You think 4% is too low an assumed appreciation rate? Then you're not living in the same world I am. In the world I live in, all types of real estate are overbuilt and the baby-boom generation is already well housed. On top of that there's a huge overhang of condos held for speculation by people who hoped to get rich buying them. Lots of these folks are just waiting for the market to perk up to get out.

So in my view a 2% annual appreciation is more likely. I'll spare you further arithmetic, but it's clear a 2% appreciation rate would almost double your costs over a 4% rate.

So for those modest appreciation prospects and one month in the sun you have tied up $45,000 in cash, incurred heavy interest and maintenance expenditures and have the year-round headache of worrying about property damage, plus rising taxes and rising common fees.

Here's a better way. Take that $45,000 and invest it in Treasury bonds. Your aftertax return will more than pay for a month's Florida rental and someone else has the problem of being an absentee owner.

If you feel like speculating, here's an even better alternative than real estate. Use that $45,000 to buy Treasury 30-year zeros on 20% margin. They currently yield 8.25%, so you will have a positive carry. If long-term interest rates drop to, say, 6%, you will have a capital gain of $207,000 on your $45,000. I happen to think long-term rates are coming down even more than that. If you take 4% as the final rate, your capital gain on those zeros rises to $550,000—a 1,200% return.

Forget those glossy photos. Tell your real estate agent to find you a worry-free rental. ■

Explosive stocks

AIRBAG makers are humming thanks to regulations requiring all cars, vans and trucks to have frontal crash protection systems for both the driver and front-seat passenger by 1997. It's estimated the airbag market will reach 30 million units in 1996, almost ten times the number sold last year.

Morton International and TRW pretty much split the airbag market evenly. But there's a hot battle shaping up between the two companies that supply most of the explosive charges, called initiators, that help inflate airbags. The competitors are $84 million (sales) OEA, Inc. and $24 million Special Devices, Inc.

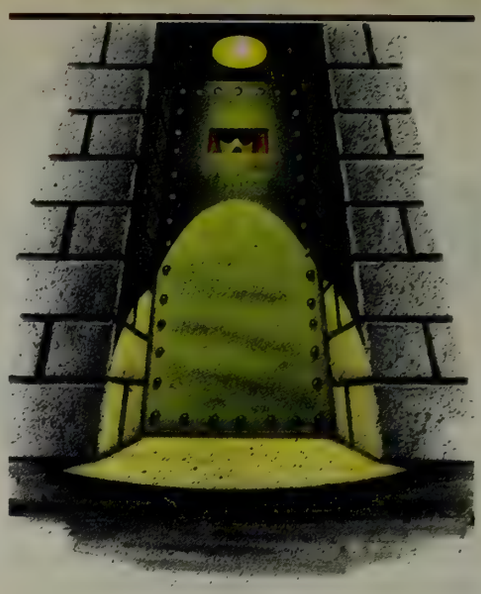
Analysts expect the initiator market, now only $25 million at most, to reach $150 million by 1995. OEA currently dominates it with a nearly 70% share. Last year OEA earned 60 cents a share, up 28% over 1990. Its NYSE-listed stock—recent price of 30—sells for 42 times estimated 1992 earnings and for over 7 times sales. Pretty high—especially when it looks as if upstart Special Devices, five of whose top managers are defectors from OEA, is coming on strong.

Special Devices, based in Newhall, Calif., has signed a contract to supply TRW with initiators for its GM, Ford, Toyota and Honda airbags through 1994. By the 1995 model year Special Devices will produce at least 75% of TRW's initiators. It's also expected to pick up increasing orders from Morton. PaineWebber analyst Stephen Girsky estimates that by 1996 Special Devices' market share will be 50%, up from 5% today.

Special Devices' o-t-c stock, which went public last August at $9.50, is no bargain. Recently at 15, it sells for 4 times sales and 33 times Girsky's 1992 earnings estimate of 45 cents a share. But that's a lot cheaper than OEA, whose days of dominance are numbered. Special Devices has 5.8 million shares. —GRETCHEN MORGENSON

First things first

WALL STREET analyst noses are out of joint over Salomon Inc.'s new investor relations policy. At last month's meeting between the investment community and management, Solly Chairman Warren Buffett announced



that from now on investor contact with the company's top brass will be limited to a few meetings a year, like the one held in February. Between meetings, even the biggest institutions will have to make do with publicly available information, including SEC filings and earnings reports.

Some analysts grumble that their lack of access will hurt Salomon's stock (recently 29). But possibly the reverse will be true. Take Henry Singleton's Teledyne Inc. Singleton's shyness of Wall Street is legend, yet Teledyne has been one of the best stocks of the last two decades.

Buffett's message is that he wants to treat all investors the same. That way, Solly's management can worry about running the company, not the stock. From a shareholder's point of view, what's wrong with that?

Straw in the wind?

SANFORD (SANDY) WEILL, chairman of Primerica Corp., has been known to make a good sale or two, such as when he sold Shearson Loeb Rhoades to American Express in 1981 for around $1 billion. Recently Weill made another sale that may be instructive. Last month Primerica, which owns broker/investment banker Smith Barney, collected nearly $24 million when it sold most of its 21% stake in $323 million (net revenues) Inter-Regional Financial Group, Inc., the Minneapolis-based holding company for regional brokerages Dain Bosworth (Minneapolis) and Rauscher Pierce Refsnes (Dallas).

Brokerage stocks were big winners in 1991. Some, such as Charles Schwab and Bear, Stearns, have continued to rise sharply this year. Why, then, did Weill, who through Smith Barney has his finger on the pulse of the industry, sell out of Inter-Regional? Maybe he thinks brokerage stocks are getting toppy. Indeed, Primerica's 1.35 million Inter-Regional shares were sold to the public at $18.63 a share, well over three times their price not much more than a year ago.

They say you never go broke taking a profit. It may behoove investors to follow Weill's example and take some profits on the brokerage stocks.

Dangerous stock

AURA SYSTEMS INC. has a technology for making electromagnetic actuators, which reduce the friction between fast-moving parts. The El Segundo, Calif.-based company boasts of development contracts with the likes of Boeing, Kodak, Texaco, General Dynamics and Toyota.

Investors have pushed the stock to fantastic levels. The o-t-c stock's been volatile, ranging from 3⅞ to 12¼ over the last year; at a recent price of 8½, Aura sports a market cap of $224 million. Not bad for an outfit that last year lost $5 million, or 22 cents a share, on $8.3 million in sales.

This stock has danger written all over it. Take the development contract Aura had with General Motors' Saginaw division. Last November Aura's chief financial officer told a wire service Aura expected a $42 million contract to supply actuators to GM. But Aura delivered its final test products to GM on Feb. 25 and has yet to be given a production contract.

Then there's the lawsuit a subsidiary of Adolph Coors Co. filed against Aura last year. Seems the brewer invited Aura to take a look at its canmaking operation. Coors claims that after Aura signed an agreement not to disclose the Coors process, Aura applied for a patent incorporating Coors' technology and promptly signed a licensing deal with packager Ball Corp. Coors was awarded a preliminary injunction prohibiting Aura from using this technology. Aura has countersued, alleging that Coors misappropriated Aura's process.

Another warning flag: There has been steady insider selling since last year. For instance, director Peter Jaquith has sold 107,000 shares, or 9% of his holdings, since May 1991. This, despite the fact the New York brokerage he runs, First Hanover Securities, makes a market in the stock and has actively been recommending it.

With the stock at such lofty levels, there's not much room for errors or disappointments. –LISA COLEMAN

El conquistador strikes again

MEXICAN billionaire Carlos Slim Helú, the son of a Lebanese immigrant, led the successful $1.7 billion privatization of Teléfonos de México (FORBES, *Sept. 16, 1991*). With Slim as chairman, Telmex last year earned $2.3 billion on sales of $5.4 billion, which included a $207 million nonrecurring gain from the retirement of debt acquired from the Mexican government. Since last September Telmex's Big Board-traded shares have skyrocketed 69%, to a recent 55⅞.

Last month Slim, 51, made another interesting move. Slim's holding company, Grupo Carso, bought 30% of Grupo Condumex, a publicly traded maker of electric conduits, fiber-optic cable and auto parts, for $140 million from beleaguered Italian tire-maker Pirelli. Slim now controls 40% of Condumex's 80 million shares outstanding. He will use the company to supply material for Telmex's rapid expansion. Plans call for 1 million new telephone lines by the end of this year alone. Even so, only 21% of Mexican households will have phone service; there will be enormous room to grow for the rest of the decade.

Condumex's earnings were off 35% last year, to $24 million (30 cents a share), on sales of $630 million because of expenses related to renegotiating its supply contracts with Telmex. But Luis Martínez, an analyst with Inverlat in Mexico City, expects earnings to rebound 25% this year, to about 38 cents a share. The news of Slim's purchase boosted Condumex shares, which trade only on Mexico City's Bolsa, 20% in just three days. But at a recent price of around $8, Martínez thinks the stock still has some upside left. –CLAIRE POOLE ■

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The FORBES 500s issue is the most complete and comprehensive of its kind, providing a multidimensional evaluation of America's largest companies. FORBES bases the performance of 800 companies on one or more of the following criteria: sales, profits, assets and market value – which are three more criteria than Business Week. And unlike Fortune's industrial-intensive list, FORBES includes service and retail companies, financial institutions and utilities. FORBES also measures productivity and stock market performance.

FORBES editors then asked themselves, "What else could we do to provide a total picture?" And thus the FORBES Super 50, which identifies the absolute leaders by their across-the-board showing on FORBES four main lists, was born.

Let's face it – there's more than one industry and more than one way to measure success, and the FORBES 500s does it. No wonder more top managers consult this directory than any other.

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ISSUE DATE: APRIL 27, 1992

CLOSING DATES: MARCH 16, 1992 (PARTIAL PAGES) MARCH 23, 1992 (FULL PAGES)

A PERFECT BOUND ISSUE WITH READER SERVICE CARD NOTE: ISSUE AND CLOSING DATES SUBJECT TO CHANGE.

"The more things change . . ."

70 years ago in Forbes

(From the issue of Apr. 1, 1922)

"**The dollar buys** one-quarter more in New York now than it did at the beginning of 1921, reports to the Department of Labor show. In other first-class cities the value of the dollar is virtually the same as in New York."

"**William D. Haywood** heads a group of American IWW [Industrial Workers of the World] men to whom Premier Lenin has granted a concession to operate the big Nadejdinsky Iron Works in the Ural Mountain region, part of the coal mines in the Kosnetz Basin and auxiliary factories."

60 years ago

(From the issue of Apr. 1, 1932)

Forbes map shows how tough things were in early '32, with "fair" (i.e., poor) business in a few areas and the rest of the country "quiet"—meaning awful.

"**It does not** seem possible that certain basic commodities could decline much farther. Are not such things already extraordinarily cheap: rubber at 3 cents; copper at 6 cents or less; raw sugar under ¾ of a cent a pound; wheat at a little over half-a-dollar a bushel; cotton around 6½ cents; silk at $1.40; lead at 3⅛ cents; hides at 6 cents; iron around $15, and steel billets $27 per ton?"

"**Some of the important** aspects of the proposed new billion-dollar tax bill include increased normal and surtax rates on corporation income taxes, larger estate taxes, a 2¼% manufacturers sales tax, a gasoline import tax, a stock transfer tax and a possible tax on amusement admissions."

50 years ago

(From the issue of Apr. 1, 1942)

Novel war item: a blackout awning.

"**Decision to convert** all industry, except a minimum fringe for civilian necessities, and the 'inventory' registration of 90% of all men in the U.S. labor force spell out repercussions which extend beyond winning this war. As war comes to form the backbone of all the jobs in America, a new era of military dominance is in prospect. An armed force of 10 million men is the end-of-1943 goal."

"**Of the** 5 million workers now engaged in war production, only half a million are women. At the end of the last war, we had 9 million workers in war plants, of which at least 2¼ million were of the fair sex. Before the year is out, however, women should make big gains in the industrial world. Officials predict a war-plant force of 15 million, including 3½ million women."

25 years ago

(From the issue of Apr. 1, 1967)

"**Organized labor's** organizing efforts have come to almost nothing in recent years, according to latest Department of Labor figures. During the past five years, a period when the total work force expanded by 10 million, labor has added on average only 20,000 members a year. Result is that, out of 79 million in today's labor market, only a trifle over 15 million are members of AFL-CIO unions."

"**By 1962 Kresge** was earning just over 4% on its stockholders' equity, and profits had fallen 35% in five years. Other variety chains, while not in the same straits as Kresge, were also feeling the pressure. In trying to get back on the track, each company used a somewhat varied approach. . . . Woolworth tried to have its cake and eat it by keeping its variety stores while creeping into discount department stores. [Kresge's] answer was entering, via Jupiter and Kmart stores, into discounting."

10 years ago

(From the issue of Mar. 29, 1982)

"**For now, the recession** is deepening; the slight rebound last month was just a fluke. In the first two months of this year, according to Dun & Bradstreet, more than 3,500 companies have closed their doors, a 55% jump over the first two months of 1981. Retailers are the hardest hit, followed by construction companies. This indicates that consumers, who will lead the upturn, are still retrenching. Consumer fears are also reflected in new auto sales, which plummeted 27% in February despite widely ballyhooed rebates."

Hockey star Wayne Gretzky with his enterprising agent, Gus Badali.

"**With the National** Hockey League season not yet over, young Wayne Gretzky last month surpassed Phil Esposito's record of 76 goals scored in one season. He showed an astonishing grace under all the pressure and hoopla although he is only 21 years old. The salary records Gretzky is setting are no less astonishing. If his knees hold up and if his teammates on the Edmonton Oilers do well, Gretzky could earn more than $20 million Canadian ($16.5 million U.S.) over the next 15 years by the terms of his unprecedented 20-year contract."

Clout is something some seem to have—until they try exercising it.

It's the less-bright students who make teachers teach better.

One often reads about the art of conversation—how it's dying or what's needed to make it flourish, or how rare good ones are. But wouldn't you agree that the infinitely more valuable rara avis *is a good listener?*

The dumbest people I know are those who Know It All.

Failure is success if we learn from it.

–Malcolm Forbes

A Text ...

For the poor shall never cease out of the land; therefore I command thee, saying: Thou shalt open thine hand wide unto thy brother, to the poor, and to thy needy.
–Deuteronomy 16:11

Sent in by Norbert Strauss, Englewood, N.J. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

The reason why we have two ears and only one mouth is that we may listen the more and talk the less.
–Zeno of Citium

Conversation: A fair for the display of the minor mental commodities, each exhibitor being too intent upon the arrangement of his own wares to observe those of his neighbor.
–Ambrose Bierce

Reading makes a full man, meditation a profound man, discourse a clear man.
–Benjamin Franklin

Conversation: The slowest form of human communication.
–Don Herold

I distrust the incommunicable; it is the source of all violence.
–Jean-Paul Sartre

Never speak of yourself to others; make them talk about themselves instead. Therein lies the whole art of pleasing. Everyone knows it and everyone forgets it.
–Edmond & Jules de Goncourt

The happiest conversation is that of which nothing is distinctly remembered, but a general effect of pleasing impression.
–Samuel Johnson

We don't see things as they are, we see things as we are.
–Anais Nin

In this world we must either institute conventional forms of expression or else pretend that we have nothing to express; the choice lies between a mask and a figleaf.
–George Santayana

A gossip is one who talks to you about others; a bore is one who talks to you about himself; and a brilliant conversationalist is one who talks to you about yourself.
–Lisa Kirk

A man does not know what he is saying until he knows what he is not saying.
–G.K. Chesterton

It is not what we learn in conversation that enriches us. It is the elation that comes of swift contact with tingling currents of thought.
–Agnes Repplier

When the eyes say one thing and the tongue another, a practiced man relies on the language of the first.
–Ralph Waldo Emerson

My skepticism long ago led me to the belief that writers write for themselves and not for their readers, and that art has nothing to do with communication between person and person, but only between different parts of a person's mind.
–Rebecca West

You cannot speak of ocean to a well-frog, the creature of a narrower sphere. You cannot speak of ice to a summer insect, the creature of a season.
–Chuang Tzu

Experience does not err; only your judgments err by expecting from her what is not in her power.
–Leonardo da Vinci

Conversation: Something that starts the moment you put your foot through the television set.
–Anonymous

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